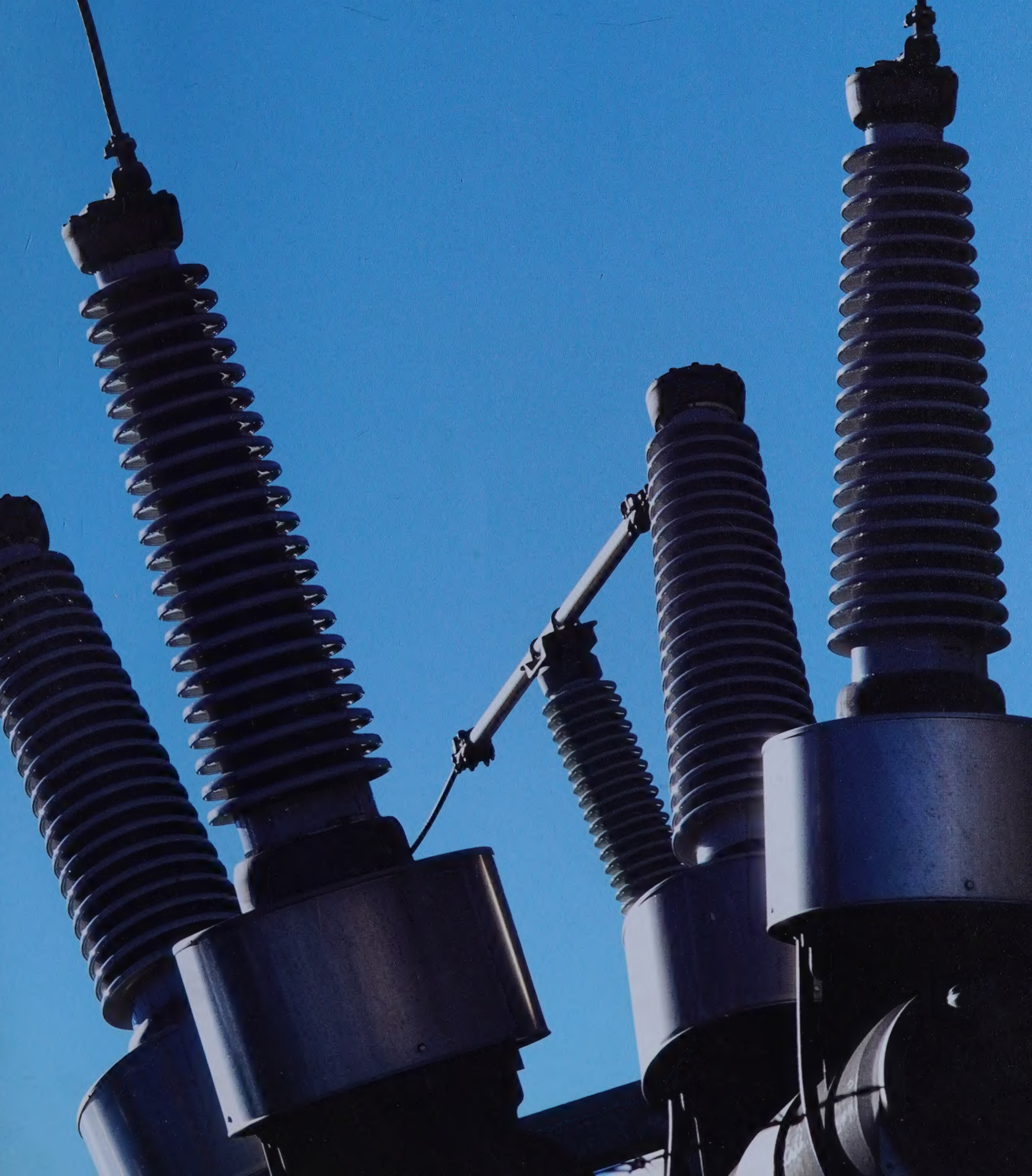
TransAlta POWER

ANNUAL REPORT 2004



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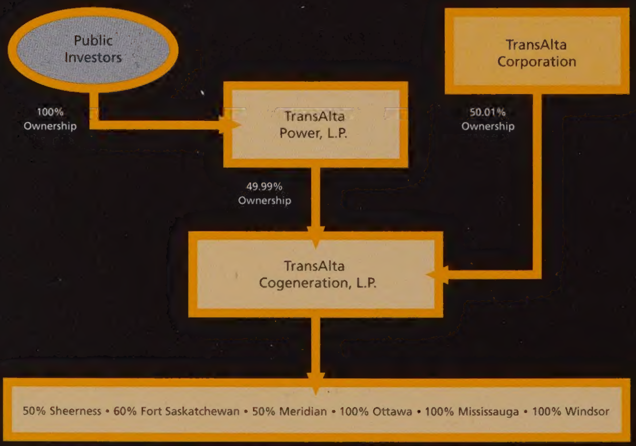
CORPORATE PROFILE

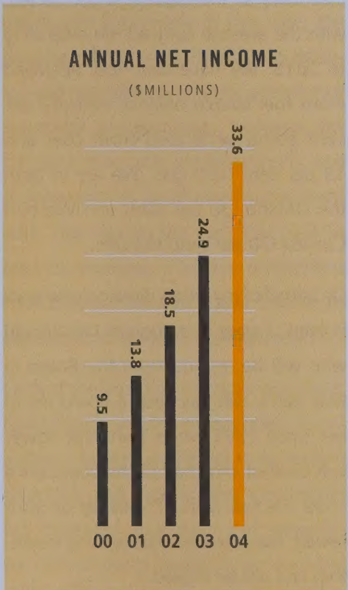
TransAlta Power, L.P. (TransAlta Power) owns a 49.99 per cent interest in TransAlta Cogeneration, L.P. (TA Cogen), which owns interests in five gas-fired cogeneration facilities in Ontario, Alberta and Saskatchewan and in a coal-fired, mine-mouth facility in Alberta. These facilities have a total generating capacity of 1,346 megawatts (MW) of electric power, all of which is sold under long-term contracts to high-quality counterparties.

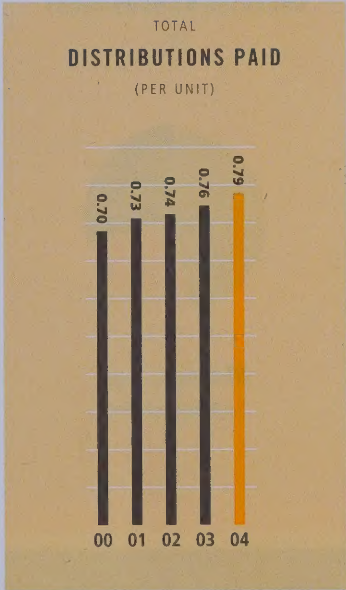


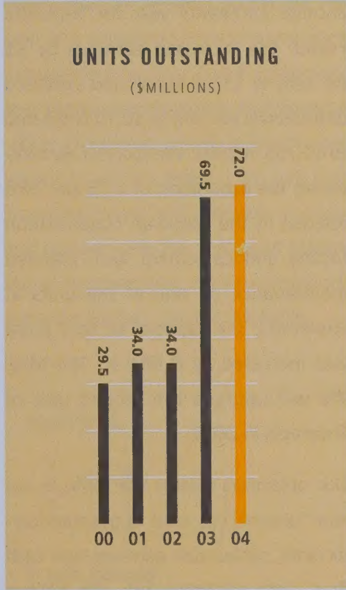
FRONT COVER
Photo: Transformer at Windsor plant (electrical bushings and disconnect).

HIGHLIGHTS

- Increased distributions per unit for the fifth consecutive year.
- Completed the acquisition of an interest in the Meridian cogeneration facility.
- Completed the first full year of operations of the Sheerness plant.







ASSETS

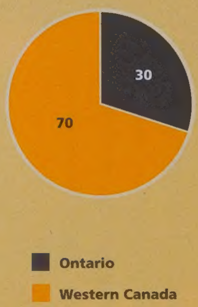
To Our Unitholders

I am pleased to report that 2004 was another successful year for TransAlta Power. We increased earnings by 35 per cent to $33.6 million and increased distributions per unit to $0.79 compared to $0.765 in 2003. We successfully completed the acquisition of a 25 per cent interest in the Meridian cogeneration facility and coincident with planned maintenance on one of the units at Sheerness, the capacity of that plant was increased by 8 MW to 764 MW. We will upgrade the second unit of Sheerness in 2005.

Our objectives remain the same as we look forward. We want to generate predictable, sustainable earnings and cash flow, with minimum risk. We believe this requires diversity of plant locations, markets and fuel sources. We also believe maintaining a very high level of long-term contracting will provide predictability of revenue and fuel costs. Owning assets along with TransAlta allows us to leverage their operating, marketing, and management expertise while minimizing dedicated overhead costs in TransAlta Power. Based upon these beliefs we will continue to pursue opportunities that increase generating capacity, contribute to improving earnings and distributions to unitholders and minimize risks.

CAPACITY BY GEOGRAPHY

(%)



We want to generate predictable, sustainable earnings and cash flow, with minimum risk.

With the addition of the Meridian facility, TransAlta Power has 403 MW of capacity. Essentially all the capacity is contracted, with the average contract life extending to 2019. We have also now achieved more fuel source balance with 47 per cent being generated from coal and 53 per cent from gas. We are in both the Ontario (30 per cent) and Western Canada (70 per cent) markets.

On behalf of my fellow directors and unitholders, I want to recognize Iain Ronald who will be retiring from the Board in May 2005. Iain has been a board member since 1998 when TransAlta Power was created and chair of the board since 1999. He has worked tirelessly on your behalf, has provided outstanding leadership and will be missed.

Thank you for your continued interest in TransAlta Power. We will strive to continue to improve results and meet your expectations.

Yours truly,

Ian A. Bourne
President

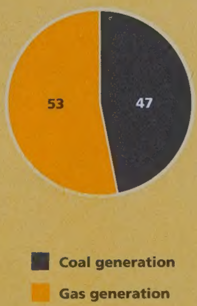
To Our Unitholders

One of the key responsibilities of any board and specifically in this case, the directors of TransAlta Power, is to establish and maintain appropriate governance standards and processes. I believe very strongly that the establishment and maintenance of good governance starts with 'the tone at the top'. You have to lead by example. I believe unitholders have that in TransAlta Power both in its directors and in senior management.

Each of the board committees, the Audit, Governance and the Independent Committee, consists entirely of independent directors. The Independent Committee has reviewed, evaluated and negotiated related party transactions involving the purchase (or rejection) of operating assets from TransAlta Corporation (TAC) or a subsidiary thereof. The Independent Committee selects and appoints its own legal counsel, financial advisors and technical advisors and negotiates, at arm's length, any related party transactions, whether they relate to the provision of services, or to the acquisition of operating assets. I believe the process has served unitholders well.

FUEL SOURCE BALANCE

(%)



You have to lead by example. I believe unitholders have that in TransAlta Power both in its directors and in senior management.

As is stated in the President's letter, I will retire from the Board in May, 2005 after seven years of service. I appreciate the help and guidance I have received from management and my board colleagues. Jerry Patava, recently retired chief financial officer of Fairmont Hotels & Resorts, has agreed to join the Board. I am sure that TransAlta Power will continue to grow and prosper with the continued leadership of your president, Ian Bourne and my successor as chair, Stephen Mulherin.

Yours truly,

T. Iain Ronald
Chairman

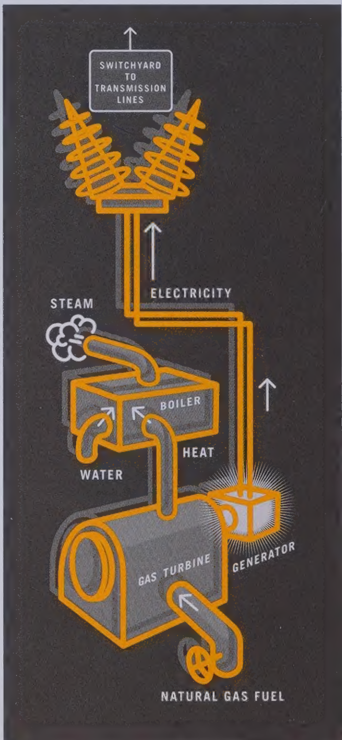
Partnership Structure

TransAlta Power owns a 49.99 per cent interest in TA Cogen. TA Cogen wholly owns three Ontario facilities, a 60 per cent interest in the Fort Saskatchewan cogeneration facility, a 50 per cent interest in the Sheerness thermal electric generation facility and a 50 per cent interest in the Meridian cogeneration facility. TAC owns 50.01 per cent of TA Cogen through two wholly-owned subsidiaries: TransAlta Energy (TEC) and TransAlta Cogeneration Ltd. TEC is responsible for the operation and maintenance of the plants.

Throughout this report, references to TransAlta Power represent this 49.99 per cent ownership interest in the power plant assets. The partnership structure can be found on the inside front cover of this annual report.

Independent Power

During the late 1980s, a number of provincial governments and publicly owned utilities established programs to purchase electricity from independent power producers rather than building additional capacity themselves. These programs were prompted by financial constraints, environmental concerns, growth in anticipated electricity demand, new technologies and growing international competition. The plants were generally smaller than traditional power plants and fuelled by natural gas.



WHAT IS
COGENERATION?

The term cogeneration refers to the simultaneous production of power and useful heat from one fuel source. In a typical cogeneration plant, a natural gas-fired turbine generates electricity and the heat produced is recovered and used to produce steam. The steam is used for an industrial process or, in the case of combined-cycle plants, to generate additional electricity through a steam turbine.

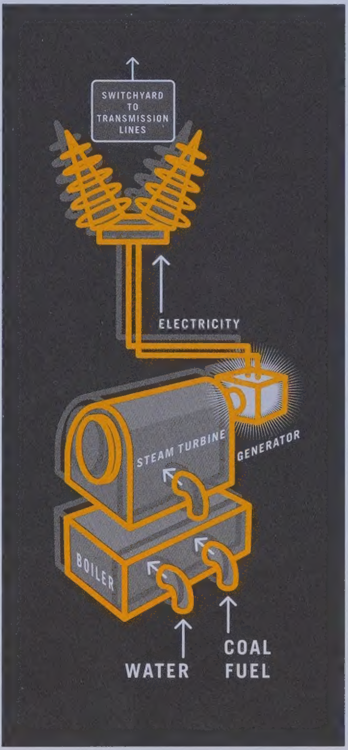
The programs contemplated that the electricity produced by independent power producers would be supplied under long-term power purchase contracts using rates that mirrored the projected long-term value of the electricity to the power system. Steam and other services from the plants would be sold to industrial or commercial operators.

This would improve the power plants' efficiency and reduce overall costs. The power plants owned and operated by TA Cogen operate within such programs. The three Ontario cogeneration plants are under contract with Ontario Electricity Financial Corporation (OEFC) for the electricity produced and they provide

steam to the hosts of the various plants. The Fort Saskatchewan, Alberta cogeneration plant provides both power and steam to the Dow Chemical Canada Inc. (Dow Chemical) facility under a contract similar to that described above. The Meridian cogeneration facility in Lloydminster, Saskatchewan provides power to Saskatchewan Power Corporation (SaskPower) and steam to Husky Oil Operations Limited (Husky) under contracts similar to that described above.

Alberta Deregulation

The Alberta government decided to deregulate the generation and selling of electricity commencing with passage of the Alberta Electric Utilities Act (EUA) in 1995. The objective was to position the industry to be increasingly cost-effective, reliable, safe, transparent and well invested for the future as a result of the natural competition associated with open markets. The government established a regime whereby the previously regulated plants would be governed by legislated Power Purchase Arrangements (PPAs) that would cover the remaining economic life of the plants or 20 years, whichever was the shorter time period. The PPAs include negotiated levels of availability, deemed capital structures, prenegotiated levels of costs and provision for annual updating of interest rates and inflation.



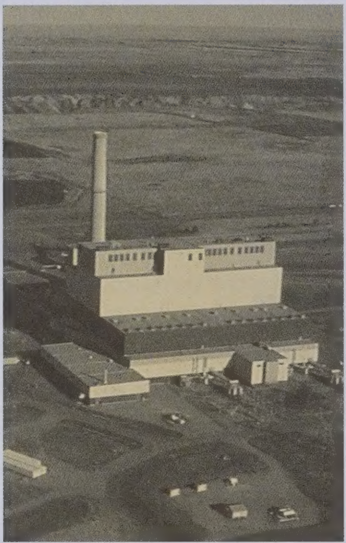
WHAT IS
THERMAL ELECTRIC
GENERATION?

Coal is pulverized to a fine powder, mixed with air and blown into the boiler (furnace). This coal/air mixture ignites instantly in the boiler. Water is drawn into the plant, purified and circulated through small pipes lining the boilers. Water in the boiler pipes picks up heat from the boiler and turns into steam that passes to the steam turbine. The steam turbine then causes a shaft to turn inside a generator, creating electric current.

Meridian

On Dec. 1, 2004, TA Cogen acquired a 50 per cent interest in the 220 MW Meridian cogeneration facility from TAC. The Meridian facility is a joint venture with Husky and is located at Husky's heavy oil upgrader in Lloydminster, Saskatchewan.

The electricity produced by the plant is sold to SaskPower under a long-term contract that includes the cost of gas and expires in December 2024. Steam produced at the plant is sold to Husky's facility in Lloydminster under an agreement that expires in December 2024.



SHEERNESS

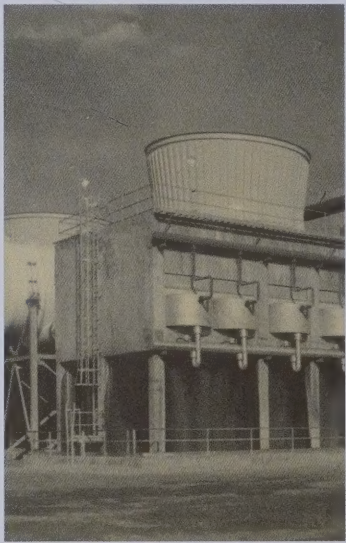
The Sheerness plant, a joint venture with Canadian Utilities Ltd., is a thermal electric generating facility, near Hanna, Alberta, designed to produce 764 MW of electrical energy. The capacity and electric energy are contracted under a PPA with the Balancing Pool. In 2004, major maintenance work was conducted at the Sheerness Plant, which resulted in an increase in the capacity of Unit 1 by 8 MW. The increased output is now sold as incremental energy to the Balancing Pool.

Megawatts
764

Electricity sales
PPA until 2020

Coal supply
Luscar until 2026

Ownership
TA Cogen 50%



FORT SASKATCHEWAN

The Fort Saskatchewan plant is a combined-cycle cogeneration facility designed to produce 118 MW of electrical energy. The Fort Saskatchewan plant, a joint venture with Air Liquide Canada Inc., provides electricity and steam to Dow Chemical's facility in Fort Saskatchewan, Alberta.

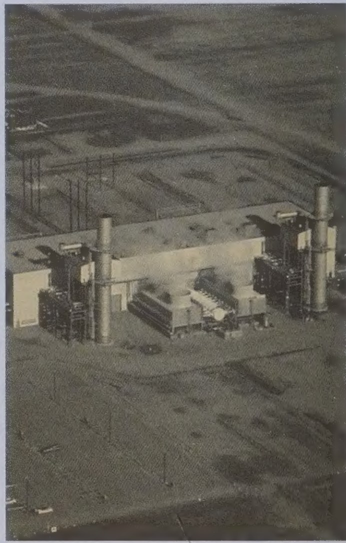
Megawatts
118

Electricity sales
Dow Chemical until 2019

Steam sales
Dow Chemical until 2019

Gas supply
Dow Chemical until 2019

Ownership
TA Cogen 60%



MERIDIAN

The Meridian plant is a combined-cycle cogeneration facility designed to produce 220 MW of electrical energy. The Meridian plant, a joint venture with Husky Oil Ltd., provides electricity to SaskPower and steam to Husky's facility near Lloydminster, Saskatchewan.

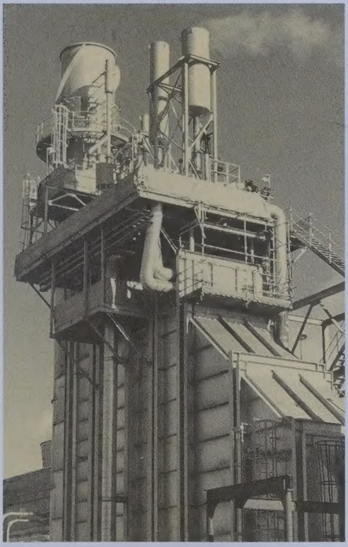
Megawatts
220

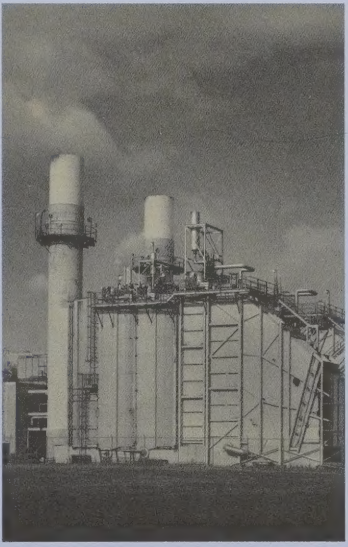
Electricity sales
SaskPower under contract until 2024

Steam sales
Husky until 2024

Gas supply
Husky until 2007

Ownership
TA Cogen 50%





WINDSOR-ESSEX

The Windsor-Essex plant is a combined-cycle cogeneration facility designed to produce 68 MW of electrical energy. Currently, 50 MW are contracted under a firm supply contract with OEFC. The remaining 18 MW of capacity will be sold into the Ontario power market when it is economic to do so under an excess capacity agreement with the OEFC. The Windsor-Essex plant also provides steam to DaimlerChrysler Canada Inc.'s assembly facility in Windsor, Ontario.

Megawatts
68

Electricity sales
OEFC under contract until 2016

Steam sales
DaimlerChrysler until 2016

Gas supply
Pioneer until 2014
Apache until 2011

Ownership
TA Cogen 100%

MISSISSAUGA

The Mississauga plant is a combined-cycle cogeneration facility designed to produce 108 MW of electrical energy. The 108 MW are contracted under a firm supply contract to OEFC. The plant also supplies steam, compressed air, waste water treatment and deionized water to Boeing Canada Inc. The plant is located adjacent to the Boeing manufacturing facility near the Lester B. Pearson International Airport in Mississauga, Ontario. The Boeing facility is scheduled to close in 2005.

Megawatts
108

Electricity sales
OEFC under contract until 2017

Steam sales
Boeing Canada until 2005

Gas supply
Husky Energy until 2012

Ownership
TA Cogen 100%

OTTAWA

The Ottawa plant is a combined-cycle cogeneration facility designed to produce 68 MW of electrical energy. The 68 MW are contracted under a firm supply contract to OEFC. The Ottawa plant also supplies steam to the member hospitals and treatment centres of the Ottawa Health Sciences Centre, National Defense Medical Centre and Perley Hospital, in Ottawa, Ontario.

Megawatts
68

Electricity sales
OEFC under contract until 2012

Steam sales
Ottawa Health Sciences Centre until 2013
Perley Hospital until 2013
National Defense Medical Centre until 2007

Gas supply
TEC until 2007

Ownership
TA Cogen 100%

Standing, left to right: *Stephen W.C. Mulherin, Randall J.Findlay, T. Iain Ronald, Terence Dalgleish.*
Sitting, left to right: *Thomas M. Rainwater, Ian A. Bourne, Robert M. Soeldner.*

Ian A. Bourne Director since 1998 and resident of Calgary, Alberta. Mr. Bourne is executive vice-president and chief financial officer of TransAlta Corporation. He is also a director of Ballard Power.

Terence Dalgleish, Q.C. Director since 1998 and resident of Calgary, Alberta. Mr. Dalgleish is counsel to McCarthy Tetrault, a national Canadian law firm.

Randall J. Findlay Director since 2000 and resident of Dewinton, Alberta. Mr. Findlay is president of Provident Energy Trust, an oil and gas income trust.

Stephen W.C. Mulherin Director since 2004 and resident of Calgary, Alberta. Mr. Mulherin is a partner in Polar Capital Corporation, a fund management business. He is also a director of Fort Chicago Energy Partners, L.P. and Speedware Corporation.

Thomas M. Rainwater Director since 2003 and resident of Calgary, Alberta. Mr. Rainwater was appointed executive vice-president, Corporate Development & Marketing of TransAlta Corporation in November 2002; prior to which he was president of Praxis Solutions, Inc. in Chicago, Illinois.

T. Iain Ronald Director since 1998 and resident of Toronto, Ontario. Mr. Ronald is a director of Loblaw Companies Limited, Leon's Furniture Ltd., Strongco Inc., BFI Canada Income Fund and Allied Properties REIT.

Robert M. Soeldner Director since 2003 and resident of Calgary, Alberta. Mr. Soeldner was appointed as executive vice-president, Operations of TransAlta Corporation in November 2002, prior to which he was vice-president, Strategic Initiatives of New York Independent System Operator. Prior to 2001 he was senior director of Enron Europe, Ltd.

PARTNERSHIP GOVERNANCE AND STATEMENT OF GOVERNANCE PRACTICES

Partnership Governance

The governance of the Partnership is the responsibility of the Board of Directors of the General Partner (the "Board") and the rights, authority and limitations on the General Partner are described in the Limited Partnership Agreement, as amended (the "Partnership Agreement"). Under the terms of a Management Agreement, the Partnership has retained TransAlta Energy Corporation (the "Manager") to provide management, administrative and other services to the Partnership.

As set out in the Partnership Agreement, the Board is to be comprised of not more than seven directors of which not less than three are to be independent and unrelated to TransAlta. The Board is comprised of seven directors, three of whom are independent and unrelated to TransAlta.

The Board has plenary power for all activities of the General Partner unless specifically delegated to a committee of the Board or management. To fulfill its responsibilities with respect to the Partnership, the General Partner's Board has established an audit committee, governance and nominating committee and a committee of independent directors. All of these committees are comprised of the independent directors on the Board. The combined work of the Board and these committees fulfill the fiduciary responsibility of the Board to foster the long-term success of the Partnership and maximize the partners' value.

The Partnership Agreement provides that the Board can function separately from the Manager and management, as a majority of independent directors must approve all material transactions including material agreements between the Partnership and TransAlta. The Board has accommodated this requirement through the establishment of an independent directors' committee, which was made up in 2004 of Messrs. Iain Ronald (Chair), Randall Findlay and Stephen W.C. Mulherin. That Committee must approve all material transactions between the Partnership and TransAlta and any of TransAlta's affiliates or associates. The independent directors' committee met 10 times in 2004.

Both the Board and the independent directors' committee can approve the engagement of outside advisors. The engagement of advisors for the independent directors' committee is limited to advisors required for matters within their mandated responsibility.

As a publicly traded entity, the Partnership is required to disclose on an annual basis its alignment with a set of governance guidelines adopted by the Toronto Stock Exchange to assist organizations in assessing accountability to stakeholders.

GUIDELINE 1 Board should explicitly assume responsibility for stewardship of the corporation

Does the Partnership Align? Yes

Description of Approach: The Board has responsibility for the overall stewardship of the Partnership, establishing the overall policies and standards of the Partnership in the operation of its businesses, reviewing and approving its strategic plans and supervising the Manager.

GUIDELINE 1A Board should specifically assume responsibility for the adoption of a strategic planning process

Does the Partnership Align? Yes

Description of Approach: The Board has adopted a strategic planning process and meets during the year to review and approve the Manager's strategic plan for the Partnership. Changes to that plan are considered when appropriate.

GUIDELINE 1B Board should specifically assume responsibility for the identification of principal business risks, and implementation of risk management systems

Does the Partnership Align? Yes

Description of Approach: The strategic plan process adopted by the Board also includes a review of significant risks to the Partnership, and the Manager ensures that the Board is kept informed of any changes to these risks on a timely basis.

The audit committee reviews the Partnership's financial risks and reports to the Board on these matters on a quarterly basis. The Board also receives and reviews reports from the Manager on health, safety and environmental issues affecting the Partnership.

GUIDELINE 1C Board should specifically assume responsibility for succession planning, including appointing, training and monitoring senior management

Does the Partnership Align? Yes

Description of Approach: The Board believes that the management of the Partnership is key to its ongoing success. Under the terms of the Management Agreement, the Manager is responsible to provide management, administrative and other services to the Partnership including such matters as may be requested by the General Partner from time to time. The Partnership relies on the Manager to be responsible for succession planning to meet its contractual obligations.

GUIDELINE 1D Board should specifically assume responsibility for communications policy

Does the Partnership Align? Yes

Description of Approach: The Board has put structures in place to ensure effective communications between the Partnership, its partners and the public. The Board, or the appropriate committee thereof, reviews the content of the Partnership's major communications to the investing public, including the quarterly and annual reports and quarterly and annual management's discussion and analysis, and approves the annual information form and any prospectuses that may be issued. The disclosed information is released through mailings to limited partners, news wire services, the general media and the Partnership's website at www.transalta.com.

GUIDELINE 1E Board should specifically assume responsibility for the integrity of internal control and management information systems

Does the Partnership Align? Yes

Description of Approach: The Partnership has retained the Manager to provide the Partnership with management, administrative and other services. Internal controls similar to those used by TransAlta Corporation are in place for the Partnership and these are monitored by the audit committee through reports from the Manager, the work of the external auditors and reports from the Manager's internal auditors. The audit committee meets, in camera, after each meeting, without any management in attendance.

GUIDELINE 2 Majority of directors should be "unrelated" (independent from management and free from conflicts of interest)

Does the Partnership Align? No

Description of Approach: Under the terms of the Partnership Agreement, the General Partner has agreed that as long as it is an Affiliate of TransAlta, its board of directors shall be comprised of not more than seven directors of which not less than three shall be independent directors. Under the terms of the agreement, all transactions with TransAlta must be recommended by the Independent Directors' Committee. The Board believes this is an appropriate approach for the Partnership.

In 2004, the Partnership completed a significant transaction, the acquisition of a 49.99 per cent interest in TransAlta's 50 per cent interest in the Meridian Plant, a 220-MW gas-fired electric generating station near Lloydminster, Saskatchewan. This transaction required a significant time commitment of the Independent Directors' Committee. In approving the acquisition, the Independent Directors' Committee obtained independent financial advice, including a formal valuation, independent legal advice and independent technical advice. The Board believes that this process worked well and in the best interests of all Partners.

GUIDELINE 3 Disclose for each director whether he or she is related, and how that conclusion was reached and that the majority of directors are "outside" directors

Does the Partnership Align? No

Description of Approach: The Board has seven directors, three of whom are senior officers of TransAlta, namely Messrs. Bourne, Rainwater and Soeldner, and one of who, Mr. Dalgleish, is counsel to a law firm which provides legal advice to TransAlta. These four individuals would be considered to be related directors. The remaining three directors, namely Messrs. Ronald, Mulherin and Findlay, are unrelated. None of them: worked in the day-to-day operations of the Partnership or the Manager; was a party to any material agreements with the Partnership; had any material relationship with the Partnership or the Manager (either directly or through family members or indirectly, as a partner, shareholder or officer of an organization that has a relationship with the Partnership or the Manager); or received any fees or other compensation other than as a director or committee member.

GUIDELINE 4 Appoint a committee of outside directors responsible for appointment of new nominees and ongoing assessment of directors

Does the Partnership Align? Yes

Description of Approach: The Board has established a governance and nominating committee, comprised of independent directors Messrs. Ronald (chair), Mulherin and Findlay, to fulfill these responsibilities, including assessing new nominees to the Board as well as considering the Board's performance on an ongoing basis. The charter of this committee is contained on the TransAlta website at www.transalta.com.

GUIDELINE 5 Implement a committee process for assessing the effectiveness of the Board, its committees and the contribution of individual directors

Does the Partnership Align? Yes

Description of Approach: The governance and nominating committee is responsible for assessing the performance of the Board, its committees, and the contribution of individual directors.

GUIDELINE 6 Provide orientation and education programs for new recruits to the board

Does the Partnership Align? Yes

Description of Approach: All directors are provided with orientation materials that include written information about

the duties and obligations of directors of the Partnership and the business of the Partnership. An opportunity for meetings and discussions with senior management and other directors is also available. The details of the orientation of each new director will be tailored to that director's individual needs and areas of interest.

GUIDELINE 7 Examine the size of board, with a view to improving effective decision-making and, if appropriate, undertake a program to reduce the number of directors

Does the Partnership Align? Yes

Description of Approach: The Partnership Agreement provides for the Board to be comprised of not more than seven directors of which not less than three are to be independent. At this time the Board consists of seven directors, three of whom are independent, and the Board believes this is an appropriate number for the business of the Partnership.

GUIDELINE 8 Review adequacy and form of compensation of directors to ensure compensation reflects risks and responsibilities

Does the Partnership Align? Yes

Description of Approach: The Board reviews the compensation of the independent directors on an annual basis, taking into account such matters as time commitment, responsibility and compensation provided by comparable entities. Only the outside directors receive compensation from the Partnership for services to the Board or committees.

GUIDELINE 9 Committees should generally be composed of outside directors, a majority of which are unrelated

Does the Partnership Align? Yes

Description of Approach: The Board believes that, as a matter of policy, there should be a majority of unrelated directors on its committees and the committees should be chaired by independent directors. The Audit Committee, the Governance and Nominating Committee and the Independent Directors' Committee are each comprised of unrelated directors.

GUIDELINE 10 Appoint a committee responsible for developing an approach to corporate governance issues

Does the Partnership Align? Yes

Description of Approach: The Governance and Nominating Committee has this responsibility.

GUIDELINE 11 Define limits to management's responsibilities by developing position descriptions for the board and CEO and approving corporate objectives for the CEO to meet

Does the Partnership Align? Yes, indirectly

Description of Approach: Under the Management Agreement, the Partnership has retained the Manager to provide management, administrative and other services to the Partnership. The Manager has in place position descriptions, limitations of authority and corporate objectives for all its senior officers, which are reviewed annually.

GUIDELINE 12 Establish procedures to enable the Board to function independently of management

Does the Partnership Align? Yes

Description of Approach: The Partnership Agreement provides that the Board can function separately from the Manager and management of the General Partner, as a majority of independent directors must approve all material transactions or agreements between the Partnership and TransAlta or any of its Affiliates, including the Manager. The Independent Directors' Committee has been established for this purpose.

GUIDELINE 13 Establish an audit committee composed only of outside directors with specifically defined roles and responsibilities

Does the Partnership Align? Yes

Description of Approach: The Audit Committee for the Partnership has defined roles and responsibilities as outlined in its Charter. That committee is comprised of three independent directors, Messrs. Ronald (Chair), Mulherin, and Findlay. Each member of the Audit Committee is "financially literate" under applicable Canadian governance rules. The Charter of the Audit Committee will be an Appendix to the 2005 Annual Information Form, which will be available on SEDAR at www.sedar.com and is available on TransAlta's website at www.transalta.com. Additional information concerning the Audit Committee, required by Multilateral Instrument 52-110, will be found under the heading "Audit Committee" in the 2005 Annual Information Form.

GUIDELINE 14 Implement a system to enable individual directors to engage outside advisors at the corporation's expense

Does the Partnership Align? Yes

Description of Approach: Independent directors have the authority to retain consultants for themselves or the Independent Directors' Committee, where necessary and appropriate.

This management's discussion and analysis (MD&A) should be read in conjunction with the financial statements and Auditors' Reports for TransAlta Power, L.P. (TransAlta Power) and TransAlta Cogeneration, L.P. (TA Cogen) included in this Annual Report. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). All tabular amounts in the following discussion are in millions of Canadian dollars, except per unit amounts, unless otherwise noted. This MD&A is current as of March 4, 2005. Additional information respecting TransAlta Power, including TransAlta Power's annual information form, is available on SEDAR at www.sedar.com.

TransAlta Power's primary source of earnings is from its equity ownership in TA Cogen. TA Cogen distributes cash to its partners, including TransAlta Power. TransAlta Power utilizes the cash distributions received from TA Cogen to fund its distributions to its unitholders. A detailed discussion of TA Cogen can be found in this MD&A to provide context for TransAlta Power's results.

Forward-Looking Statements

This MD&A contains forward-looking statements, including statements regarding the business and anticipated financial performance of TransAlta Power and TA Cogen. In some cases, forward-looking statements can be identified by terms such as 'may', 'will', 'believe', 'expect', 'potential', 'enable', 'continue' or other comparable terminology. These statements are not guarantees of TransAlta Power's and TA Cogen's future performance and are subject to risks, uncertainties and other important factors that could cause TransAlta Power's and TA Cogen's actual performance to be materially different from those projected. Some of the risks, uncertainties, and factors include, but are not limited to: legislative and regulatory developments that could affect revenues, costs, the speed and degree of competition entering the market; global capital markets activity; timing and extent of changes in commodity prices, prevailing interest rates, inflation levels and general economic conditions where TransAlta Power and TA Cogen operate; results of financing efforts; changes in counterparty risk; and the impact of accounting standards issued by Canadian standard setters. Given these uncertainties, the reader should not place undue reliance on these forward-looking statements. See additional discussion under the Risk Factors and Risk Management section in this MD&A.

Overview

TransAlta Power's earnings and cash flows result from its 49.99 per cent ownership interest in TA Cogen. The remaining 50.01 per cent of TA Cogen is owned by TransAlta Corporation (TAC), through its wholly-owned subsidiaries: TransAlta Energy Corporation (TEC), 50 per cent, and TransAlta Cogeneration Ltd., 0.01 per cent. TA Cogen distributes cash to TransAlta Power, TEC and TransAlta Cogeneration Ltd. in amounts proportionate to their ownership interests in TA Cogen. TransAlta Power, in turn, pays cash distributions to its unitholders.

Strategy and Key Performance Indicators

TransAlta Power's primary objective is to provide predictable and sustainable cash distributions to unitholders. During 2004, TransAlta Power's cash distributions per unit increased by three per cent compared to 2003, following a full year's ownership by TA Cogen of a 50 per cent interest in the Sheerness plant and the December 2004 acquisition of a 50 per cent interest in the Meridian Cogeneration Facility (Meridian). See the Significant Events in 2004 and 2003 section of this MD&A.

TA Cogen's strategy is to deliver sustainable earnings and cash flows through operation of a portfolio of power generating assets. To implement this strategy, TransAlta Power and TA Cogen focus on maintaining a strong balance sheet, minimizing costs, utilizing existing assets efficiently and carefully managing the risk profile. As part of this strategy, TA Cogen acquired an interest in the Meridian plant in December 2004, increasing the capacity of its portfolio of power generating assets.

Plant availability is a key performance indicator for TA Cogen and is the key factor in determining revenue. TA Cogen delivers the majority of its output under long-term contracts; therefore, availability is critical to meeting these contractual requirements. During 2004, TA Cogen spent $12.8 million on planned maintenance and achieved a fleet availability of 93 per cent, as compared to 96 per cent in 2003. TA Cogen's goal is to have an overall availability of at least 90 per cent.

Long-term contracts minimize TA Cogen's exposure to market price and fuel cost fluctuations thereby providing a stable stream of contribution margin to support fixed operating costs, pay interest, make capital expenditures and provide distributions to unitholders. In 2004, 99 per cent of TA Cogen's production was sold under contracts with a weighted average remaining duration of 14.5 years.

Financial Highlights

TransAlta Power

Year ended Dec. 31 *(in millions except for per unit amounts)*	**2004**	**2003**
Net income	**$ 33.6**	$ 24.9
Net income per unit	**$ 0.48**	$ 0.51
Cash available for distribution	**$ 33.6**	$ 37.6
Cash available for distribution per unit	**$ 0.48**	$ 0.77
Total distributions in cash and units	**$ 55.9**	$ 37.6
Total distributions paid in cash and units, per unit	**$ 0.79**	$ 0.76
Weighted average number of units outstanding	**70.6**	48.9

Cash available for distribution is the amount by which TransAlta Power's cash on hand or to be received in respect of that period exceeds: (i) any unpaid administration expenses of TransAlta Power; and (ii) amounts required for the business and operations of TransAlta Power, including pursuing growth opportunities. TransAlta Power offers unitholders the option to receive distributions in cash or additional units. TA Cogen only distributes the amount of cash that TransAlta Power requires to fund the cash distributions to be paid to unitholders who choose not to participate in the DRIP, in addition to amounts required to fund TransAlta Power's operations.

Cash available for distribution is a measure of TransAlta Power's ability to make distributions to unitholders based on operating results; however, it is not defined under GAAP and it should not be considered an alternative to, or more meaningful than, net income or cash flow as determined in accordance with GAAP as an indicator of TransAlta Power's performance or liquidity. TransAlta Power's cash available for distribution is not necessarily comparable to a similarly titled measure of another partnership. A reconciliation from cash flow from operations to cash available for distribution is as follows:

Year ended Dec. 31 *(in millions)*	**2004**	**2003**
Cash flow from operations	**$ (1.4)**	$ (0.9)
Change in non-cash working capital balances	**0.3**	–
Purchase of TA Cogen units	**(30.0)**	(152.4)
Advance from TA Cogen	**28.0**	–
Net proceeds on the issuance of partnership units	**56.7**	191.6
Redemption of partnership units	**(56.4)**	(37.2)
Distributions received from TA Cogen	**36.4**	36.5
Cash available for distribution	**$ 33.6**	$ 37.6

TA Cogen

Year ended Dec. 31 *(in millions)*	2004	2003
Net income	**$ 69.5**	$ 51.6
Cash available for distribution	**$ 118.1**	$ 79.9
Cash distributions paid	**$ 72.9**	$ 72.9

Cash available for distribution is the amount by which TA Cogen's cash on hand or to be received in respect of that period exceeds: (i) any unpaid administration expenses of TA Cogen; (ii) the repayment of long-term debt; (iii) amounts required for the business and operations of TA Cogen and the power plants; and (iv) any cash reserve which the Board of Directors of the TA Cogen general partner in its discretion determines is necessary to satisfy TA Cogen's current and anticipated obligations and liabilities.

Cash available for distribution is a measure of TA Cogen's ability to make distributions to unitholders based on operating results; however, it is not defined under GAAP and it should not be considered an alternative to, or more meaningful than, net income or cash flow as determined in accordance with GAAP as an indicator of TA Cogen's performance or liquidity. TA Cogen's cash available for distribution is not necessarily comparable to a similarly titled measure of another partnership. A reconciliation from cash flow from operations to cash available for distribution is as follows:

Year ended Dec. 31 *(in millions)*	2004	2003
Cash flow from operations	**$ 129.1**	$ 79.3
Changes in non-cash working capital	**4.0**	11.7
Levelization repayment to TEC	**(0.5)**	(0.1)
Repayment of long-term debt principal	**(3.7)**	(3.4)
Capital maintenance spending, net of recoveries	**(10.8)**	(7.6)
Cash available for distribution	**$ 118.1**	$ 79.9

Significant Events in 2004 and 2003

2004

Acquisition of the Meridian Plant

On Dec. 1, 2004, TA Cogen completed the purchase of a 50 per cent interest in the 220-megawatt (MW) Meridian plant located in Lloydminster, Saskatchewan from TEC for $109.5 million. TA Cogen financed the acquisition through the use of $49.5 million of cash on hand, issuance of $30.0 million of units to TEC and an advance from TEC for $30.0 million. In conjunction with the purchase of Meridian, TA Cogen also issued $30.0 million of units to TransAlta Power in exchange for an advance to TransAlta Power.

Fair value was determined by valuing the estimated future cash flows from TEC's 50 per cent share of Meridian. Estimated future cash flows were based on forecasts of revenues, operating expenses, capital investments, decommissioning and working capital cash flows, which were validated by independent financial, legal and engineering advisors. Valuation methods and metrics were applied that were representative of similar transactions.

TA Cogen's interest in Meridian is accounted for as a joint venture and, accordingly, reflects only TA Cogen's proportionate interest in the related assets, liabilities, revenues and expenses.

Gas Supply Contract

In May 2004, TA Cogen secured a $4.80 gigajoule (GJ) fixed price gas supply contract with TEC for the period from January 2006 to November 2007 for the Ottawa plant. The fixed price contract represents a $0.35 per GJ improvement ($1.5 million per year) compared to the projected ceiling price under the floating price contract, also with TEC. The fixed price of $4.80 per GJ is lower than the forward market prices for the period January 2006 to November 2007 when the transaction was completed.

DRIP

On Jan. 31, 2004, TransAlta Power implemented the Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan (DRIP). The DRIP enables unitholders to acquire additional Partnership units through reinvestment of the monthly distributions paid on their existing units, as well as through optional cash payments. See additional discussion under the Liquidity and Capital Resources section in this MD&A.

2003

Acquisition of the Sheerness Plant

On July 31, 2003, TA Cogen closed the purchase of a 50 per cent interest in the Sheerness Generating Station (Sheerness). The interest in Sheerness was acquired from TEC for $630.0 million, which included approximately $4.3 million of working capital, the assumption of an asset retirement obligation of $3.7 million and the assumption of a fair value liability relating to the power purchase arrangement of $76.0 million. The acquisition was funded through the issuance of partnership units to TEC for $315.0 million and to TransAlta Power for $315.0 million.

Fair value was determined by valuing the estimated future cash flows from TEC's 50 per cent share of Sheerness. Estimated future cash flows were based on forecasts of long-term revenues, operating expenses, capital investments, decomissioning and working capital cash flows, which were validated by independent financial, legal and engineering advisors. Valuation methods and metrics were applied that were representative of similar transactions.

TA Cogen's interest in Sheerness is accounted for as a joint venture and, accordingly, reflects only TA Cogen's proportionate interest in the related assets, liabilities, revenues and expenses. Sheerness is operated by Canadian Utilities Ltd., a subsidiary of ATCO Ltd.

Operating Results

TransAlta Power

Equity Income from TA Cogen and Cash Distributions

Year ended Dec. 31 *(in millions except per unit amounts)*	2004	2003
Equity income	$ 34.7	$ 25.8
Equity income per unit	$ 0.49	$ 0.53
Total distributions paid in cash and units	$ 55.9	$ 37.6
Total distributions paid in cash and units, per unit	$ 0.79	$ 0.76

Equity income represents TransAlta Power's 49.99 per cent interest in the net earnings of TA Cogen, the operating limited partnership. A detailed discussion of TA Cogen's net earnings can be found in the TA Cogen Operating Results section of this MD&A.

TransAlta Power declared total distributions for the year ended Dec. 31, 2004 of $55.9 million ($0.79 per unit), of which unitholders reinvested distributions under the DRIP of $22.3 million, compared to 2003 distributions of $37.6 million ($0.76 per unit). The monthly cash distributions were increased to $0.06625 per unit effective Dec. 31, 2004 (annualized distributions of $0.7950 versus $0.7848 per unit).

From inception of Transalta Power in 1998 to 2003, cash distributions have been fully tax-deferred. Unitholders are not required to pay income tax in the year of receipt on the distributions that are tax-deferred. Approximately 85 per cent of the cash distributions are tax-deferred for 2004.

Management and Administration Expenses

Year ended Dec. 31 *(in millions)*	2004	2003
Management and administration expenses	$ 1.0	$ 1.6

The decrease in management and administration expenses of $0.6 million for the year ended Dec. 31, 2004 over 2003 was primarily the result of the one-time compensation fee of $1.0 million paid to TEC in 2003 for amending the limited partnership management services agreement.

Net Interest Income

Year ended Dec. 31 *(in millions)*		2004		2003
Net interest expense (income)	$	0.1	$	(0.7)

Interest expense for the year ended 2004 was substantially offset by interest earned on cash deposits in the period. Interest income in 2003 represented interest earned on the subscription receipts issued in connection with the Sheerness acquisition for the period from July 9 to July 31, 2003.

TA Cogen

Net Income and Cash Distributions Paid

Year ended Dec. 31 *(in millions)*		2004		2003
Net income	$	69.5	$	51.6
Cash distributions paid	$	72.9	$	72.9

For the year ended Dec. 31, 2004, net income increased by $17.9 million over 2003 due to a full year of earnings from Sheerness in 2004, versus five months in 2003.

Sheerness was acquired during the third quarter of 2003, adding net generating capacity of 378 MW. Meridian was acquired during the fourth quarter of 2004, adding another 110 MW. In addition, major maintenance work was conducted in 2004 at the Sheerness plant, which resulted in an increase in the capacity of Unit 1 by 8 MW, bringing TA Cogen's total net generating capacity to 807 MW.

Availability, Production and Revenues

Year ended Dec. 31 *(in millions except as noted)*		2004		2003
Availability (%)		93.0		95.7
Total production (GWh)		5,284		3,496
Revenues				
Electrical	$	128.4	$	108.6
Capacity		141.6		89.4
Thermal and other		14.4		11.2
Total	$	284.4	$	209.2

Plant availability for the year ended Dec. 31, 2004 was lower than in 2003, primarily as a result of a planned outage in the second quarter of 2004 for major maintenance work at Sheerness.

Total production increased by 1,788 gigawatt hours (GWh) for the year ended Dec. 31, 2004, as a result of the inclusion of a full year of Sheerness production in 2004, whereas 2003 included only five months.

Revenues from Sheerness are earned under an Alberta Power Purchase Arrangement (PPA), which expires on Dec. 31, 2020. Under the terms of the PPA, Sheerness earns monthly capacity revenues, which are designed to recover the plant's fixed costs and provide a return on capital. In addition, Sheerness earns energy payments for the recovery of pre-determined variable costs of producing energy, an incentive/penalty for achieving above or below the targeted availability and an excess energy payment for power production above committed capacity; all are included in electrical revenues. TA Cogen's electrical revenues from the Ontario plants are earned under long-term contracts with the Ontario Electricity Financial Corporation (OEFC). The long-term contracts have remaining terms ranging from nine to 14 years. The Fort Saskatchewan plant earns no electrical revenue, as Dow Chemical Canada Inc. (Dow Chemical) purchases the entire capacity of the plant by way of capacity payments. Meridian earns monthly electrical capacity and energy payments under a long-term contract with Saskatchewan Power

Corporation (SaskPower). The capacity payments are designed to recover the plant's fixed costs and provide a return on capital. The electrical payments are for the recovery of fuel, operation and maintenance and other variable costs. Meridian also earns steam energy revenue under a long-term agreement with Husky Oil Ltd. (Husky).

Electrical revenue increased by $19.8 million for year ended Dec. 31, 2004, compared to 2003. The increase is primarily due to incremental revenue from a full year of Sheerness of $10.2 million, comprised of $20.9 million of revenue including net incentive revenues, partially offset by penalties paid during Sheerness' major maintenance outage of $10.7 million. The remainder of the increase is due to one month of revenue from the newly acquired Meridian plant of $4.2 million and increased revenues from the Ontario plants of $5.9 million due to contractual price escalations and higher production.

Capacity revenue increased by $52.2 million for the year ended Dec. 31, 2004 over 2003. The increase is primarily the result of the inclusion of Sheerness for a full year, compared to five months of revenue received in 2003. The planned outage at Sheerness during the second quarter of 2004 did not affect capacity revenue.

Thermal and other revenue increased by $3.2 million for the year ended Dec. 31, 2004 over 2003. The increase is a result of the addition of the Meridian plant in the quarter, as well as higher steam prices at the Windsor-Essex plant.

Cost of Fuel

Year ended Dec. 31 *(in millions)*	2004	2003
Total cost of fuel	**$ 113.8**	$ 83.9

Cost of fuel includes gas commodity and transportation costs and coal costs. Gas commodity prices for the Ottawa and Mississauga plants are fixed, with an escalation factor, under the terms of the 61-month fixed-for-floating swap agreement with TEC, which began on Dec. 1, 2000. Natural gas used by the Fort Saskatchewan plant is provided by Dow Chemical, based on contractual arrangements. TA Cogen also has a transportation swap agreement with TEC to fix gas transportation costs for the Ottawa and Mississauga plants from November 2002 to November 2007.

Coal for Sheerness is supplied from the Sheerness mine, which is owned and operated by Luscar Ltd. (Luscar). Coal is supplied at a price consisting of a fixed monthly charge and a variable per tonne charge, both of which are subject to escalation. In addition, a royalty will be paid to Luscar once a specified amount of coal has been delivered. This royalty is expected to be triggered in 2012. The coal agreements expire in 2026, when Sheerness is expected to be retired.

For the year ended Dec. 31, 2004, fuel costs increased by $29.9 million over 2003, as a result of incremental production from Sheerness of $27.5 million, and the increase in the cost of gas of $3.99 per MWh to $38.43 per MWh mainly due to price escalations in the Windsor-Essex gas supply contract and in the fixed-for-floating swap agreement.

Depreciation and Amortization Expense

Year ended Dec. 31 *(in millions)*	2004	2003
Depreciation and amortization	**$ 61.3**	$ 38.3

For the year ended Dec. 31, 2004, depreciation expense increased by $23.0 million over 2003 due to the addition of Sheerness during the third quarter of 2003, and increased depreciation at the Ontario plants.

Operations and Maintenance Expenses (O&M)

Year ended Dec. 31 *(in millions)*	2004	2003
O&M	**$ 36.6**	$ 30.6

O&M for the year ended Dec. 31, 2004 increased by $6.0 million compared to the same period in 2003 as a result of the addition of Sheerness, increased planned maintenance outages costs at the three Ontario plants, partially offset by lower administration fees from TEC related to the one-time $5.0 million compensation fee paid in 2003 for the amendment of the management services agreement.

Net Interest Expense

Year ended Dec. 31 *(in millions)*	2004	2003
Net interest expense	$ 3.2	$ 4.9

Interest expense for the year ended Dec. 31, 2004 was lower than that incurred during 2003, due to interest income earned on advances made to TEC under the $50.0 million credit facility that was established on Sept. 30, 2003.

Outlook

The key factors affecting TA Cogen's financial results for 2005 are the megawatt capacity in place, the availability of and production from generating assets, the costs of production and the margins applicable to non-contracted production. As such, these key factors may also affect TransAlta Power's financial results.

Production and Availability

Production for 2005 is expected to increase in comparison with 2004 due to incremental production from Meridian, acquired on Dec. 1, 2004, and the increase in generating capacity at Sheerness due to uprates in 2004 and 2005. Availability for 2005 is expected to be slightly lower than 2004 primarily due to planned maintenance at Ottawa and Meridian in 2005.

If Sheerness does not achieve annual availability targets specified in the PPA, availability penalties may exceed incentives resulting in a net penalty position. Consequently, an extended outage could have a material adverse effect on the business, financial condition, results of operations, or cash flows of TA Cogen and, therefore, materially adversely affect the amount of cash available for distribution to unitholders during such period. Insurance and force majeure clauses in the PPA and other long-term contracts mitigate this exposure.

Power Prices

Electricity spot prices for 2005 are expected to be comparable to those realized in 2004 in all markets. Spot power prices in Alberta should soften slightly as new supply is only partially offset by anticipated strength in gas prices in 2005. Sheerness' exposure to volatility in electricity prices is substantially mitigated through the PPA, as a significant portion of production will be contracted based on achieving specified availability targets. Exposure to electricity prices in the Ontario market is substantially mitigated through firm-price, long-term electricity sales contracts.

Commodity Prices

Coal costs for 2005 are expected to be consistent with 2004. Gas commodity costs are expected to increase slightly in the fourth quarter of 2005, due to the escalation of gas prices in the Windsor-Essex gas supply contracts. The gas commodity costs for the Ottawa and Mississauga plants will also escalate in the fourth quarter of 2005 under the terms of the swap agreement with TEC. Transportation costs for the Ottawa and Mississauga plants are fixed under the transportation swap agreement with TEC. Under the transportation agreement with TransCanada PipeLines Ltd., transportation costs for the Windsor-Essex plant are expected to decrease slightly for 2005. The Fort Saskatchewan plant has no exposure to movements in gas commodity or transportation costs as the customer supplies all gas necessary for use in the plant.

Capital Expenditures

Capital expenditures for 2005 are expected to be between $15 and $20 million, the majority of which will be for major maintenance and a planned outage and uprate of generating capacity at Sheerness.

Balance Sheet

TransAlta Power

The following summarizes significant changes in the balance sheets of TransAlta Power between Dec. 31, 2003 and Dec. 31, 2004:

(in millions)	Increase/(decrease)	Explanation
Accounts receivable	(2.7)	Receipt of proceeds outstanding on the exercised warrants at Dec. 31, 2003.
Accounts payable and accrued liabilities	(3.0)	Payment to TEC for the repurchase of TransAlta Power units which was accrued at Dec. 31, 2003.
Advances from related parties	28.1	Balance owing to TA Cogen in conjunction with the acquisition of Meridian.

TA Cogen

The following summarizes significant changes in the balance sheets of TA Cogen between Dec. 31, 2003 and Dec. 31, 2004:

(in millions)	Increase/(decrease)	Explanation
Accounts receivable	4.0	Primarily due to the addition of Meridian.
Advances to related parties	31.0	Advances paid to TransAlta Power and repayment of amounts owing by TEC under a credit facility, offset by advances from TEC for the Meridian acquisition.
Power plants, net	54.8	Additions to Meridian of $109.5 million and additions to Sheerness of $7.6 million related to planned maintenance, offset by depreciation and amortization expense of $61.3 million.
Distributions payable	1.4	January and February 2005 declared distributions exceed January and February 2004 distributions accrued at Dec. 31, 2003.
Long-term debt	(3.9)	Repayment of scheduled long-term debt principal.
Power purchase arrangement	(3.6)	Amortization of deferred amounts.

Liquidity and Capital Resources

TransAlta Power

Year ended Dec. 31 *(in millions)*	2004	2003
Cash and cash equivalents, beginning of period	**$ 0.2**	$ 0.2
Provided by (used in):		
Operating activities	**(1.4)**	(0.9)
Investing activities	**6.4**	(116.0)
Financing activities	**(5.1)**	116.9
Cash and cash equivalents, end of period	**$ 0.1**	$ 0.2

Operating Activities

In 2004, the cash outflow reflected cash earnings. In 2003, the cash outflow was due to the payment of the $1.0 million compensation fee to TEC.

Investing Activities

In 2004, the cash inflow was the result of distributions received from TA Cogen offset by the additional investment of $30.0 million in TA Cogen to acquire the Meridian plant. In 2003, the cash outflow was the result of the additional investment in TA Cogen partnership units of $152.4 million in order to acquire the interest in Sheerness, offset by distributions received of $36.4 million.

Financing Activities

In 2004, the cash outflow resulted from distributions paid to unitholders of $33.5 million, offset by advances from TA Cogen of $28.0 million. In 2003, the cash inflow included proceeds from the issuance of partnership units of $191.6 million, offset by distributions paid to unitholders of $37.6 million, and redemption of partnership units of $37.2 million.

Financing Arrangements

On April 10, 2002, TransAlta Power implemented a Normal Course Issuer Bid Program (NCIB) under which a maximum of 350,000 partnership units could be repurchased up to April 11, 2003. No units were repurchased under the program. The NCIB expired on April 11, 2003 and was not renewed.

On July 1, 2003, a $10.0 million credit facility was established between TEC and TransAlta Power whereby TEC can lend funds to TransAlta Power at the equivalent term cost of funds plus 1.50 per cent.

On Dec. 15, 2003, TransAlta Power announced its DRIP to be effective beginning with the monthly cash distribution payable on Jan. 31, 2004. The DRIP allows eligible unitholders to direct that their monthly cash distributions be reinvested in additional units at 95 per cent of the average market price. The DRIP also provides an alternative where eligible unitholders may elect, under the premium distribution component, to have these additional units delivered in exchange for a premium distribution equal to 102 per cent of the cash distribution that such unitholders would have otherwise been entitled to receive on the distribution date, subject to proration in certain circumstances. Finally, the DRIP allows those unitholders who participate in either the regular distribution reinvestment or premium distribution component of the Plan to purchase additional units from treasury for cash at a purchase price equal to 95 per cent of the average market price subject to an overall limit of 2 per cent of the units outstanding at the beginning of the year.

At Dec. 31, 2004, TransAlta Power had a working capital ratio of 27 per cent compared to 102 per cent at Dec. 31, 2003. The reduction in the working capital ratio at Dec. 31, 2004 compared to Dec. 31, 2003 is primarily the result of advances from TA Cogen related to TransAlta Power's additional investment in TA Cogen. TransAlta Power expects to have sufficient sources of internal and external capital to finance operations and growth in the short and long term.

At Dec. 31, 2004, TransAlta Power had no contractual obligations related to repayments of long-term debt or other commitments.

Stability Ratings

In November 2004, the Dominion Bond Rating Service assigned TransAlta Power a stability rating of STA-2 (mid). Standard and Poor's assigned TransAlta Power a stability rating of SR-2 (stable).

Units Outstanding

At March 4, 2005, TransAlta Power had 72.4 million units outstanding with a book value of $483.2 million or $6.67 per unit.

TA Cogen

Year ended Dec. 31 *(in millions)*	2004	2003
Cash and cash equivalents, beginning of period	**$ 0.7**	$ 0.2
Provided by (used in):		
Operating activities	**129.1**	79.3
Investing activities	**(90.2)**	(157.3)
Financing activities	**(38.3)**	78.5
Cash and cash equivalents, end of period	**$ 1.3**	$ 0.7

Operating Activities

In 2004, the cash inflow was due to an increase in earnings, partially offset by an increase in working capital requirements. In 2003, the cash inflow was due to increased cash flows as the result of the acquisition of the interest in Sheerness.

Investing Activities

In 2004, the cash outflow was the result of capital expenditures of $10.8 million mainly related to planned maintenance at Sheerness and the $79.5 million cash payment to TEC for the acquisition of Meridian. In 2003, the cash outflow was the result of the $149.8 million cash payment made to TEC for the acquisition of Sheerness and $7.5 million in planned maintenance.

Financing Activities

In 2004, the cash outflows from the distributions paid to unitholders of $72.9 million and repayment of long-term debt of $3.7 million were offset by advances from related parties and proceeds from issuance of partnership units of $30.0 million. In 2003, the cash inflow resulted from $154.9 million in cash proceeds from the issuance of partnership units to TransAlta Power ($152.4 million) and TEC ($2.5 million), partially offset by $72.9 million in distributions paid to unitholders and $3.4 million in repayment of long-term debt.

Financing Arrangements

On Sept. 30, 2003, a $10.0 million revolving credit facility was established between TA Cogen and TransAlta Power whereby TransAlta Power can lend funds to TA Cogen at the equivalent term cost of funds plus 1.25 per cent.

On July 1, 2003, TA Cogen increased the maximum amount of borrowing permitted under its existing credit facility with TEC, which bears interest at the equivalent term cost of funds plus 1.25 per cent, from $20.0 million to $50.0 million.

Long-term debt is comprised of a note payable, which bears interest at a fixed rate of 7.41 per cent and matures on Nov. 30, 2014.

At Dec. 31, 2004, TA Cogen had a working capital ratio of 94 per cent compared to 104 per cent at Dec. 31, 2003. TA Cogen expects to have sufficient sources of internal and external capital to finance operations and growth in the short and long term.

At Dec. 31, 2004, TA Cogen had the following contractual obligations related to repayments of long-term debt and other commitments.

Year ended Dec. 31 *(in millions)*	2005	2006	2007	2008	2009	Thereafter
Long-term debt	$ 3.9	$ 4.2	$ 4.5	$ 4.9	$ 5.3	$ 32.2
Levelization obligation	1.0	1.8	2.7	2.1	–	–
Transportation swap	14.9	14.9	12.4	–	–	–
Fixed-for-floating swap	44.1	–	–	–	–	–
Operating lease agreement	0.6	0.7	0.7	0.7	0.8	1.4
Luscar coal supply agreements	13.7	13.7	13.7	13.7	13.7	233.0
Total	**$ 78.2**	**$ 35.3**	**$ 34.0**	**$ 21.4**	**$ 19.8**	**$ 266.6**

TA Cogen anticipates that operations will generate sufficient cash flow to allow it to meet these commitments as they fall due.

Off-Balance Sheet Arrangements

Disclosure is required of all off-balance sheet arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities that are reasonably likely to materially affect liquidity or the availability of, or requirements for, capital resources.

TransAlta Power has no such off-balance sheet arrangements.

Fixed-price contracts and swaps are used to hedge TA Cogen's exposure to fluctuations in commodity and transportation costs. Gains and losses are deferred and recognized in earnings in the same period and financial statement caption as the hedged exposure (settlement accounting). The derivatives are not recorded on the balance sheet. Contracts for the physical delivery or supply of electricity and gas at fixed-pricing terms are not considered to be derivatives and are accounted for on a settlement basis.

For the period from Nov. 1, 2002 to Nov. 1, 2007, TA Cogen entered into a transportation swap transaction with a wholly-owned subsidiary of TEC. The business purpose of the transportation swap was to provide TA Cogen with a fixed gas delivery price for the Mississauga and Ottawa plants without being exposed to escalating costs of pipeline transportation over the period of the swap in order to stabilize cash distributions in TA Cogen. The notional gas volume in the transaction was the total delivered fuel for both facilities.

In November 2000, TA Cogen entered into a fixed-for-floating gas swap transaction with TEC for a 61-month period starting Dec. 1, 2000. The swap transaction provided TA Cogen with fixed-price gas for both the Mississauga and Ottawa plants over the period. The floating prices associated with the Mississauga and Ottawa Cogen plants' long-term fuel supply agreements were transferred to TEC's account.

Related Party Transactions

From time to time, TransAlta Power and TA Cogen engage in related party transactions. All related party transactions must be approved by a committee comprised of the independent directors.

Partnership Unit Issuance to Related Parties

On Dec. 1, 2004, in connection with TransAlta Power's and TA Cogen's acquisition of an interest in Meridian, TA Cogen engaged in certain related party transactions with TEC. See the Significant Events in 2004 and 2003 section of the MD&A.

In July 2003, in connection with TransAlta Power's and TA Cogen's acquisition of an interest in Sheerness, TransAlta Power and TA Cogen engaged in certain related party transactions with TEC. See the Significant Events in 2004 and 2003 section of this MD&A.

Management Services

TEC provides management services to TransAlta Power and TA Cogen under the terms and conditions set out in management agreements. The agreements were amended in connection with the acquisition of an interest in Sheerness in 2003, providing a reimbursement of TEC's expenses and third party costs by TransAlta Power and TA Cogen.

Credit Facilities

On July 1, 2003, a $10.0 million revolving credit facility was established between TransAlta Power and TEC whereby TEC can lend funds to TransAlta Power at the equivalent term cost of funds plus 1.50 per cent. No amount was drawn on this facility at Dec. 31, 2004 (2003 – $nil). The effective interest rate in 2004 was 4.24 per cent.

On Sept. 30, 2003, a $10.0 million credit facility was established between TransAlta Power and TA Cogen whereby TransAlta Power can lend funds to TA Cogen at the equivalent term cost of funds plus 1.25 per cent. No amount was drawn on this facility at Dec. 31, 2004 (2003 – $nil). The effective interest rate in 2004 was 3.99 per cent. No interest expense was incurred in 2004.

On Sept. 30, 2003, a $10.0 million credit facility was established between TA Cogen and TransAlta Power whereby TA Cogen can lend funds to TransAlta Power at the equivalent term cost of funds plus 1.30 per cent. The maximum amount of borrowing permitted was increased to $30.0 million on Nov. 29, 2004. At Dec. 31, 2004, $28.0 million was drawn on this facility (2003 – $nil). The effective interest rate in 2004 was 3.99 per cent. Interest expense incurred was $0.1 million in 2004.

TA Cogen increased the maximum amount of borrowing permitted under its existing credit facility with TEC, which bears interest at the equivalent term cost of funds plus 1.25 per cent, from $20.0 million to $50.0 million on Sept. 30, 2003. The effective interest rate on this facility in 2004 was 3.94 per cent (2003 – 4.57 per cent). The balance outstanding on this facility at Dec. 31, 2004 was $18.0 million (2003 – $nil). Interest expenses incurred were $0.4 million in 2004.

On Sept. 30, 2003, a $50.0 million credit facility was established between TA Cogen and TEC whereby TA Cogen can lend funds to TEC at the equivalent term cost of funds plus 1.25 per cent. The balance outstanding as at Dec. 31, 2004 was $nil (2003 – $16.9 million). Interest income earned was $1.5 million. The effective interest rate on this facility in 2004 was 3.92 per cent.

Ottawa Gas Supply Agreement

In order to secure a long-term natural gas supply for the Ottawa plant, TA Cogen has committed to purchase firm volumes of gas from TEC until Nov. 1, 2007 under a gas supply agreement. In 2004, $12.4 million was charged to cost of fuel expense (2003 – $11.5 million) with respect to purchases under this agreement.

Levelization Repayment Obligation

Pursuant to an agreement dated April 2, 1998, TA Cogen receives levelization payments from TEC in respect of the Windsor-Essex plant to levelize the escalating revenue stream resulting from the rate structure in the monthly capacity payment under the terms of the long-term contract. The levelization agreement was entered into on the construction of the plant and has a life equal to the long-term contract. In 2003, the levelization payments reversed and TA Cogen began to repay the levelization payments and interest to TEC. These amounts are recorded as a future repayment obligation to TEC. TA Cogen made principal repayments of $0.5 million in 2004 (2003 – $0.1 million).

Risk Factors and Risk Management

TEC provides risk management services to TransAlta Power and TA Cogen as part of the management services agreements. The following addresses some risk factors, but not all, that could affect TransAlta Power's and TA Cogen's future results.

Distributions

Distributions by TransAlta Power may fluctuate, depending upon numerous factors including: plant performance; the market price of natural gas; gas transportation costs; operating cash flow; its seasonality; general and administrative costs; planned maintenance costs; debt service costs and capital expenditures.

TA Cogen expects to complete planned maintenance on its plants as discussed further under the Operational Risks section. TransAlta Power expects that TA Cogen will finance planned maintenance expenditures through drawings on funds advanced from TEC. Borrowings under its credit facilities, cash from operations and the issuance of additional units may also be used, thereby reducing the impact of such expenditures on distributable cash. There can be no assurance that the planned maintenance expenditures will not result in greater variations in cash available for distribution than have been experienced in the past. The amount of cash available for distribution to a unitholder may be less than or greater than the amount of income allocated to the unitholder for tax purposes.

Operational Risks

The operational performance of the plants is the primary driver of the financial results. The plants have been designed to operate continuously except during planned and unplanned outages. TA Cogen's comprehensive plant maintenance program and regular turnarounds are designed to minimize down time and maximize operating results. This program includes participation in a lease pool for the gas turbines that minimizes the possibility of an extended down time by having replacement engines available on relatively short notice for use in the gas-fired power plants.

If the plants do not meet the availability targets specified in the contracts, then the plants must either pay a penalty for the shortfall in availability based on the rolling average pool price or experience a reduction in electrical or capacity payments. Consequently, an extended outage could have a material adverse effect on the business, financial position, results of operations, or cash flows of TA Cogen. The risk of an extended outage is mitigated through ongoing monitoring of equipment condition and the development of long-term maintenance plans.

PPA and Long-term Contracts

PPAs are long-term arrangements that apply to the previously regulated Alberta generation plants. Under the terms of a PPA, a single customer has the rights to the entire production of a plant or unit for the length of the PPA.

The Sheerness plant operates under a PPA that establishes committed capacity and electrical energy generation requirements and availability targets to be achieved and the pricing formula at which capacity and power is supplied. TA Cogen bears the risk or retains the benefit of availability (except for those arising from events considered to be force majeure) and any change in costs required to maintain and operate the facilities. Certain components of the PPA capacity payment representing pre-determined fixed operating, maintenance and fuel costs are escalated based on certain indices published by Statistics Canada. The component of the capacity payment representing a return on equity is indexed to changes in the Canadian long-term bond rate.

Power produced from the Meridian facility is sold to SaskPower under the terms of a long-term PPA among TA Cogen, Husky and SaskPower dated Sept. 1, 2003, which has an initial 25-year term running until Dec. 31, 2024. During the term of the long-term contract, the entire capacity of the Meridian facility and all electrical energy generated there from (other than certain excess energy and station service energy), is reserved for the exclusive benefit of SaskPower. In turn, SaskPower pays for the capacity made available and energy delivered.

The Ottawa, Mississauga and Windsor-Essex long-term contracts have different pricing provisions for power produced during summer and winter, as well as for on-peak and off-peak hours. The OEFC is obligated to pay for all electricity delivered during on-peak hours and off-peak hours, subject to stipulated maximums, at the applicable energy rates. The energy payments are equal to the monthly energy delivered by these facilities multiplied by the applicable energy rate, which is either a summer energy rate or a winter energy rate. In addition, each plant receives a capacity payment for electricity delivered during on-peak hours, subject to stipulated maximum monthly quantities, and subject to the on-peak deliveries exceeding a minimum of the stipulated maximum monthly quantities. These plants bear the risk of volume variances (except for those arising from events considered to be force majeure) as they relate to meeting contractual production obligations. The energy and capacity rates escalate based on contractual minimum yearly escalators and/or changes to the OEFC direct customer rate.

Fuel Supply

Based on the forecast consumption rate for coal for the Sheerness plant, the coal reserves at the Sheerness mine (including certain coal lands within the permit area of the Sheerness mine that are not currently dedicated to the Sheerness plant) are expected to be adequate to supply coal to the Sheerness plant until the projected retirement of the Sheerness plant in 2026. However, no assurance can be given that a sufficient quantity of coal reserves will be available to supply coal to the Sheerness plant over its life. In the event of a coal supply deficiency or disruption, the business, financial position, results of operations, or cash flows of TransAlta Power may be adversely affected.

The transportation swap agreement that TA Cogen has entered into with TEC, which provides TA Cogen with a fixed gas delivery price for the Ottawa and Mississauga plants without exposing it to escalating costs of pipeline transportation, expires in November 2007. There can be no assurance that the expiry of the transportation swap agreement will not result in greater variability of gas transportation costs.

TA Cogen has exposure to movements in certain commodity prices, including natural gas commodity prices and transportation costs. TA Cogen has gas supply contracts ranging from four to nine years. The remaining terms of the long-term contracts for the Ontario plants range from nine to 14 years. The long-term gas supply contracts for the three Ontario plants limit the price TA Cogen pays to suppliers within a pre-determined escalating range. The long-term gas supply agreements to TA Cogen's three Ontario plants will expire at various points in time. TA Cogen will be exposed to gas price market movements when those contracts expire, unless other arrangements are made.

TA Cogen has mitigated exposure to natural gas commodity prices at the Ottawa and Mississauga plants with a 61-month fixed-for-floating swap with TEC which expires at the end of 2005. The Ottawa plant has also secured a fixed-price contract with TEC at $4.80 per GJ from January, 2006 to November, 2007. At the Ottawa plant, fuel costs are expected to increase by $9.0 million per year in 2006 and 2007 and will revert to market-based prices at the expiry of the contract in 2007. At Mississauga, fuel costs will be subject to the pricing in the underlying long-term gas contracts starting in January 2006 and are expected to increase by $4.5 million per year. TA Cogen continues to actively explore options to minimize the long-term cost of gas.

Gas transportation costs are dictated by long-term contracts subject to rates set through a regulatory process. The Windsor-Essex plant currently has a long-term contract with TransCanada PipeLines Ltd., expiring on Oct. 31, 2006. TA Cogen has a transportation swap agreement for the Ottawa and Mississauga plants with TEC that expires on Nov. 1, 2007. This provides TA Cogen with a fixed gas delivery price for the Ottawa and Mississauga plants eliminating exposure to fluctuating costs on TransCanada PipeLines Ltd. There can be no assurance that the expiry of the transportation swap agreement will not result in greater variability of gas transportation costs.

TA Cogen has no exposure to movements in commodity prices at the Fort Saskatchewan and Meridian plants, as Dow provides the gas used at the Fort Saskatchewan plant, and gas costs flow through to customers under the terms of agreements at the Meridian plant.

Credit Risk

TA Cogen actively manages its exposure to credit risk by assessing the ability of counterparties to fulfill their obligations under the related contracts prior to entering into such contracts.

Interest Rate Exposure

TA Cogen has exposure to movements in interest rates and manages this exposure by minimizing the amount of debt subject to floating interest rates.

Environmental, Health and Safety Risk

TA Cogen's operations are subject to extensive federal, provincial and local environmental regulation. If TA Cogen does not comply with environmental requirements, agencies could seek to impose civil, administrative or criminal liabilities on TA Cogen as well as seek to curtail its operations. TA Cogen's approach is to continually improve the management of operational risks in the areas of environment, health and safety while developing mechanisms to manage future risks. These programs are integrated into the operations and management systems of TA Cogen and are designed to mitigate the potential competitive risks to its generation plants from future changes in environmental policy.

TA Cogen ensures that environmental impacts and risks of the partnership's activities are identified, assessed and managed. This is done by the use of an environmental management system to set environmental objectives and regularly review subsequent performance with senior management and mitigative action on longer-term environmental policy impacts such as climate change.

TA Cogen has implemented an ISO-based environmental, health and safety (EHS) management system, designed to continuously improve environmental and safety performance. The Dow Chemical and Meridian plants are contractually obligated to follow the EHS systems of their host companies, both of which are comparable to the ISO systems. Compliance with both regulatory requirements and conformance with management system standards is regularly audited through performance assurance procedures and results are reported quarterly to the Board of Directors.

TA Cogen is subject to federal, provincial and local environmental laws, regulations and guidelines concerning the generation and transmission of electrical and thermal energy. TA Cogen strives to maintain compliance with all environmental regulations relating to its operations and facilities. Quarterly reports on all EHS regulatory changes are provided to each facility to ensure compliance is maintained. TA Cogen works with regulators to ensure regulatory changes are well-designed and cost-effective. If regulations were to change however, the operational and financial impact on all plants would need to be assessed. Outcomes may include, but are not limited to: increased compliance, maintenance or capital costs; plant impairment charges; or the decommissioning of certain facilities.

Kyoto Protocol

On Dec.17, 2002, the Canadian government ratified the Kyoto Protocol to the United Nations Framework Convention on Climate Change (Kyoto Protocol). TransAlta Power is not able to estimate the full impact that the Kyoto Protocol will have on its operations. The Sheerness PPA does, however, contain a "change of law" provision that provides an opportunity to recover compliance costs from the Balancing Pool of Alberta should compliance with the Kyoto Protocol be required due to a "change of law".

Emission reduction objectives for the power sector are being established by the Canadian government. TA Cogen has compliance plans over the next decade for greenhouse gases, mercury, sulphur dioxide and oxides of nitrogen, which will be adjusted as regulations are finalized. Where capital investment for control equipment may be required, TA Cogen has technology review processes underway.

Regulatory and Political Risk

Certain of the markets in which TA Cogen operates are subject to significant regulatory oversight and control. TA Cogen is not able to predict whether there will be any changes in the regulatory environment or the ultimate effect of changes in the regulatory environment on its business. TA Cogen manages these risks by working with governments, regulators and other stakeholders to attempt to resolve issues. In Ontario, new Legislation was passed in December 2004 outlining a new electricity market structure. Over the course of 2005 the details of this new market will be more clearly defined and governing bodies and regulations will be developed and implemented. The new market design provides for a mix of: i) regulated assets, ii) unregulated assets, and iii) government backed long term contracts. TA Cogen's Ontario assets will retain their existing government contracts in the restructured market. In Alberta, a wholesale market review task force and a retail market review were initiated in 2004 to evaluate the functioning of the electricity market and to consider market design changes. A market design policy recommendation is expected in 2005. TA Cogen continues to work with the task force to ensure any regulatory changes are well-designed and cost-effective. If regulations were to change however, the operational and financial impact on the Alberta plants would need to be assessed. Outcomes may include, but are not limited to: increased compliance, operating or capital costs; reduced operational flexibility; or reduced power prices and volatility.

Relationship to TEC and TAC

TransAlta Power is dependent on TEC in respect of the management of TransAlta Power.

Certain conflicts of interest could arise as a result of TAC's relationship between TransAlta Power Ltd., the general partner of TransAlta Power, and TEC and its affiliates, on the one hand, and TransAlta Power on the other. Both the Partnership Agreement and the TA Cogen Partnership Agreement contain provisions that require the independent directors of the general partners of TransAlta Power or TA Cogen, as applicable, to approve transactions with TAC or its subsidiaries.

General Economic Conditions

Changes in general economic conditions impact prices received for non-contracted revenue, operating costs, the timing and extent of capital expenditures, the net recoverable value of power plants, the results of financing efforts, credit risk and counterparty risk.

Legal Contingencies

TransAlta Power and TA Cogen are occasionally named as a defendant in various claims and legal action. Exposure to these claims is mitigated through levels of insurance coverage considered appropriate by management. TransAlta Power and TA Cogen do not expect the outcome of the claims or potential claims to have a materially adverse effect on the partnerships as a whole.

Other Contingencies

TransAlta Power maintains a level of insurance coverage deemed appropriate by management, where insurance coverage can be maintained. There were no significant changes to TransAlta Power's insurance coverage during 2004.

Sensitivities

The following table shows the effect on net earnings and cash available for distribution per unit of changes in certain key variables. The analysis is based on business conditions and production volumes in 2004. Each separate item in the sensitivity assumes the others are held constant. While these sensitivities are applicable to the period and magnitude of changes on which they are based, they may not be applicable in other periods, under other economic circumstances, or for greater changes.

Assumption	Change in assumption	Impact on TA Cogen net earnings (in millions)	Impact on cash available for distribution per TransAlta Power unit
Availability/production	1%	$ 2.4	$ 0.02
Spot electricity price per MWh	$ 10	$ 2.0	$ 0.01
Long bond rates (PPA revenue)	1%	$ 3.7	$ 0.03

The calculation of the impact of a one per cent change in availability assumes that production levels will change by an equivalent amount at the contracted plants. An increase in availability at the merchant gas plants would not result in increased production.

The impact of a $10 per MWh change in electricity prices has minimal impact on net earnings and cash available for distribution, as approximately 99 per cent of output is at contractually fixed prices.

A change in natural gas prices has minimal short-term impact, as a significant portion of gas costs have been fixed or flow through to customers under terms of agreements.

Critical Accounting Policies and Estimates

TransAlta Power has no critical accounting policies that require management to make significant estimates or assumptions.

The selection and application of accounting policies is an important process that has developed as TA Cogen's activities have evolved and as accounting rules have changed. Accounting rules generally do not involve a selection among alternatives, but involve an implementation and interpretation of existing rules and the use of judgment relative to the circumstances existing in TA Cogen's business. Every effort is made to comply with all applicable rules on or before the effective date, and TA Cogen believes the proper implementation and consistent application of accounting rules is critical. However, not all situations are specifically addressed in the accounting literature. In these cases, TA Cogen's best judgment is used to adopt a policy for accounting for these situations. This is accomplished by analogizing to similar situations and the accounting guidelines governing them, consideration of foreign accounting standards and consultation with TA Cogen's independent auditors about the appropriate interpretation and application of these policies.

TA Cogen's significant accounting policies are described in *Note 2* to its consolidated financial statements. The most critical of these policies for TA Cogen are those related to the valuation of power plants and the useful life of power plants. Each policy involves a number of estimates and assumptions to be made by management about matters that are highly uncertain at the time the estimate is made. Different estimates, with respect to key variables TA Cogen used for the calculations or changes to

estimates, could potentially have a material impact on its financial position or results of operations. These critical accounting estimates are described below.

Management has discussed the development and selection of these critical accounting estimates with the Audit Committee and TA Cogen's independent auditors. The Audit Committee has reviewed and approved TA Cogen's disclosure relating to critical accounting estimates in this MD&A.

Revenue Recognition

The majority of TA Cogen's revenues are derived from the sale of physical power. Revenues under long-term electricity and thermal sales contracts generally include one or more of the following components: fixed capacity payments for being available; energy payments for generation of electricity; availability incentives or penalties for exceeding or not meeting availability targets; and excess energy payments for power generation above committed capacity. Each is recognized upon output, delivery, or satisfaction of specific targets, as specified by contractual terms. Revenues from non-contracted capacity are comprised of energy payments for each MWh produced at market prices, and are recognized upon delivery.

Valuation of Power Plants

On an annual basis, and when indicators of impairment exist, TA Cogen determines whether the net carrying amount of power plants is recoverable from future undiscounted cash flows. Factors which could indicate that impairment exists include significant underperformance relative to historical or projected operating results, significant changes in the manner or use of the assets, the strategy for TA Cogen's overall business and significant negative industry or economic trends. In some cases, these events are clear. However, in many cases, a clearly identifiable event indicating possible impairment does not occur. Instead, a series of individually insignificant events occur over a period of time leading to an indication that an asset may be impaired. This can be further complicated in situations where TA Cogen is not the operator of the project. Events can occur in these situations that may not be known until a date subsequent to their occurrence.

TA Cogen's business, the markets and business environment are continually monitored, and judgments and assessments are made to determine whether an event has occurred that indicates possible impairment. If such an event has occurred, an estimate is made of the future undiscounted cash flows from the asset. If the total of the undiscounted future cash flows (excluding financing charges with the exception of plants that have specifically dedicated debt) is less than the carrying amount of the asset, an asset impairment must be recognized in the consolidated financial statements. The amount of the impairment recognized is calculated by subtracting the fair value of the asset from the carrying value of the asset. Fair value is the amount at which an item could be bought or sold in a current transaction between willing parties, and is best estimated by calculating the net present value of future expected cash flows related to the asset. Both the identification of events that may trigger an impairment and the estimates of future cash flows and the fair value of the asset require considerable judgment.

Power plants make up 95 per cent of TA Cogen's assets. Plants are reviewed for impairment annually and when conditions of impairment exist.

The assessment of asset impairment requires management to make significant assumptions about future sales prices, cost of sales, production and fuel consumed over the life of the plants (up to 30 years), retirement costs and discount rates. In addition, when impairment tests are performed, the estimated useful lives of the plants are reassessed, with any change accounted for prospectively.

In estimating future cash flows of the plants, TA Cogen used estimates based on contracted and future market prices based on expected market supply and demand in the region in which the plant operates, anticipated production levels, planned and unplanned outages, and transmission capacity or constraints for the remaining life of the plant. Actual results can, and often do, differ from the estimates, and can have either a positive or negative impact on the estimate of the impairment charge, and may be material.

The results of TA Cogen's annual impairment review showed no indications of impairment. Had assumptions been made that resulted in future cash flows of the plants declining by 10 per cent from current levels, certain plants would have been impaired.

Asset Retirement Obligations

TA Cogen recognizes asset retirement obligations (ARO) on plants in the period in which they are incurred if a reasonable estimate of a fair value can be determined. The fair value of the liability is described as the amount at which the liability could be settled in a current transaction between willing parties. Expected values are probability weighted to deal with the risks and uncertainties inherent in the timing and amount of settlement of many ARO's. Expected values are discounted at the risk-free interest-rate adjusted to reflect the market's evaluation of the entity's credit standing. Determining ARO requires estimated life of the related asset and estimated costs of activities such as demolition, dismantling, restoration and remedial work based on present day methods and technologies.

A change in the discount rate of five per cent could have an impact of approximately $0.3 million on TA Cogen's pre-tax earnings, and no impact on TA Cogen's cash flow from operations. A five per cent change in the undiscounted asset retirement obligation would have no impact on TA Cogen's pre-tax earnings, or on TA Cogen's cash flow from operations.

Useful Life of Power Plants

TA Cogen's power plants are depreciated over their estimated useful lives. The estimated useful lives were determined based on current facts and past experience, and take into consideration the anticipated physical life of the asset, existing long-term sales agreements and contracts, current and forecasted demand and the potential for technological obsolescence. Major components of plants are depreciated over their own useful lives. A component is a tangible asset that can be separately identified as an asset, and is expected to provide a benefit of greater than one year.

The rates used are reviewed on an ongoing basis to ensure they continue to be appropriate, and are also reviewed in conjunction with impairment testing, as previously discussed.

Selected Annual Financial Information

TransAlta Power

(in millions except per unit amounts)	**2004**	2003	2002 [1]
Revenue	**$ 34.7**	$ 25.8	$ 18.9
Net income	**$ 33.6**	$ 24.9	$ 18.5
Net income per unit	**$ 0.48**	$ 0.51	$ 0.54
Cash available for distribution [2]	**$ 33.6**	$ 37.6	$ 23.3
Cash available for distribution per unit [2]	**$ 0.48**	$ 0.77	$ 0.74
Cash distributions paid	**$ 55.9**	$ 37.6	$ 25.2
Cash distributions paid per unit	**$ 0.79**	$ 0.76	$ 0.74
Total assets	**$ 598.9**	$ 573.5	$ 263.6

TA Cogen

(in millions)	**2004**	2003	2002 [1]
Revenue	**$ 284.4**	$ 209.2	$ 154.5
Net income	**$ 69.5**	$ 51.6	$ 37.7
Cash available for distribution [2]	**$ 118.1**	$ 79.9	$ 57.2
Cash distributions paid	**$ 72.9**	$ 72.9	$ 51.1
Total assets	**$ 1,384.9**	$ 1,309.5	$ 619.7
Total long-term debt	**$ 55.0**	$ 58.7	$ 62.1

Note:

[1] Restated to reflect TA Cogen's adoption of the new standard for asset retirement obligations on Jan. 1, 2003. TA Cogen adopted the change retroactively with restatement of prior periods. The impact of adopting this policy was not material to the consolidated financial statements.

[2] Cash available for distribution is a measure of earnings that is not defined under GAAP. See the Financial Highlights section of this MD&A for further discussion and a reconciliation of net income to cash available for distribution.

Selected Quarterly Financial Information

TransAlta Power

Year ended Dec. 31, 2004 *(in millions except per unit amounts)*	Q1	Q2	Q3	Q4	Total
Revenues	$ 12.2	$ 0.5	$ 8.5	$ 13.5	$ 34.7
Net income	$ 11.9	$ 0.4	$ 8.4	$ 12.9	$ 33.6
Net income per unit	$ 0.17	$ 0.01	$ 0.12	$ 0.18	$ 0.48
Total distributions paid in cash and units	$ 13.7	$ 13.9	$ 14.0	$ 14.3	$ 55.9
Total distributions paid in cash and units, per unit	$ 0.19	$ 0.20	$ 0.20	$ 0.20	$ 0.79
Cash available for distribution [1]	$ 9.0	$ 9.0	$ 7.6	$ 8.0	$ 33.6
Cash available for distribution per unit [1]	$ 0.13	$ 0.13	$ 0.11	$ 0.11	$ 0.48

TransAlta Power

Year ended Dec. 31, 2003 *(in millions except per unit amounts)*	Q1	Q2	Q3	Q4	Total
Revenues	$ 4.8	$ 1.6	$ 4.7	$ 14.7	$ 25.8
Net income	$ 4.7	$ 1.4	$ 4.2	$ 14.6	$ 24.9
Net income per unit	$ 0.14	$ 0.04	$ 0.07	$ 0.21	$ 0.51
Total distributions paid in cash and units	$ 6.4	$ 6.4	$ 11.2	$ 13.6	$ 37.6
Total distributions paid in cash and units, per unit	$ 0.19	$ 0.19	$ 0.19	$ 0.19	$ 0.76
Cash available for distribution [1]	$ 6.4	$ 6.3	$ 13.6	$ 11.3	$ 37.6
Cash available for distribution per unit [1]	$ 0.19	$ 0.19	$ 0.24	$ 0.16	$ 0.77

TA Cogen

Year ended Dec. 31, 2004 *(in millions)*	Q1	Q2	Q3	Q4	Total
Revenues	$ 78.1	$ 54.3	$ 67.9	$ 84.1	$ 284.4
Net income	$ 24.2	$ 1.1	$ 17.1	$ 27.1	$ 69.5
Cash distributions paid	$ 18.4	$ 14.3	$ 18.1	$ 22.1	$ 72.9
Cash available for distribution [1]	$ 38.4	$ 8.3	$ 30.0	$ 41.4	$ 118.1

TA Cogen

Year ended Dec. 31, 2003 *(in millions)*	Q1	Q2	Q3	Q4	Total
Revenues	$ 43.2	$ 33.3	$ 54.3	$ 78.4	$ 209.2
Net income	$ 9.6	$ 3.1	$ 9.4	$ 29.5	$ 51.6
Cash distributions paid	$ 12.9	$ 12.8	$ 22.6	$ 24.6	$ 72.9
Cash available for distribution [1]	$ 13.2	$ 7.1	$ 18.9	$ 40.7	$ 79.9

[1] *Cash available for distribution is a measure of earnings that is not defined under GAAP. See the Financial Highlights section of this MD&A for further discussion. A reconciliation of net income to cash available for distribution is presented below.*

TransAlta Power

Year ended Dec. 31, 2004 *(in millions)*	Q1	Q2	Q3	Q4	Total
Cash flow from operations	$ 1.5	$ (1.8)	$ (0.1)	$ (1.0)	$ (1.4)
Change in non-cash working capital balances	(1.7)	1.7	–	0.3	0.3
Purchase of TA Cogen units	–	–	–	(30.0)	(30.0)
Advance from TA Cogen	–	1.8	(1.4)	27.6	28.0
Redemption of partnership unit	–	(3.7)	(0.3)		(4.0)
Net proceeds on the issuance of partnership units	–	3.9	0.3	–	4.2
Distributions declared from TA Cogen	9.2	7.1	9.1	11.1	36.5
Cash available for distribution	$ 9.0	$ 9.0	$ 7.6	$ 8.0	$ 33.6

TransAlta Power

Year ended Dec. 31, 2003 *(in millions)*	Q1	Q2	Q3	Q4	Total
Cash flow from operations	$ –	$ (0.2)	$ (0.5)	$ (0.2)	$ (0.9)
Change in non-cash working capital balances	(0.1)	–	–	–	–
Purchase of TA Cogen units	–	–	(152.4)	–	(152.4)
Redemption of partnership units	–	–	–	(37.2)	(37.2)
Net proceeds on the issuance of partnership units	–	–	155.2	36.4	191.6
Distributions declared from TA Cogen	6.5	6.4	11.3	12.3	36.5
Cash available for distribution	$ 6.4	$ 6.3	$ 13.6	$ 11.3	$ 37.6

TA Cogen

Year ended Dec. 31, 2004 *(in millions)*	Q1	Q2	Q3	Q4	Total
Cash flow from operations	$ 19.3	$ 21.9	$ 21.8	$ 38.5	$ 101.5
Changes in non-cash working capital	20.9	(5.6)	10.7	5.6	31.6
Non-cash interest expense	(0.1)	–	(0.1)	(0.1)	(0.3)
Levelization advance from TEC	(0.1)	(0.1)	(0.1)	(0.2)	(0.5)
Advance to (from) TransAlta Power	–	(1.8)	1.4	–	(0.4)
Repayment of long-term debt principal	(0.9)	(0.9)	(0.3)	(0.9)	(3.0)
Actual capital maintenance spending, net of recoveries	(0.7)	(5.2)	(3.4)	(1.5)	(10.8)
Cash available for distribution	$ 38.4	$ 8.3	$ 30.0	$ 41.4	$ 118.1

TA Cogen

Year ended Dec. 31, 2003 *(in millions)*	Q1	Q2	Q3	Q4	Total
Cash flow from operations	$ 26.0	$ 8.1	$ 14.8	$ 30.4	$ 79.3
Changes in non-cash working capital	(9.9)	2.1	5.7	13.8	11.7
Levelization advance from TEC	–	–	–	(0.1)	(0.1)
Repayment of long-term debt principal	(0.8)	(0.8)	(0.9)	(0.9)	(3.4)
Actual capital maintenance spending, net of recoveries	(2.1)	(2.3)	(0.7)	(2.5)	(7.6)
Cash available for distribution	$ 13.2	$ 7.1	$ 18.9	$ 40.9	$ 79.9

TRANSALTA POWER, L.P.
MANAGEMENT'S RESPONSIBILITY

TransAlta Power, L.P.'s management is responsible for the presentation and preparation of the annual financial statements, management's discussion and analysis (MD&A) and all other information in this annual report.

The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

The MD&A has been prepared in accordance with the requirements of securities regulators including National Instrument 44-101 of the Canadian Securities Administrators and their related published requirements.

The financial statements and information in the MD&A necessarily include amounts based on informed judgments and estimates of the expected effects of current events and transactions with appropriate consideration for materiality. In addition, in preparing financial information, the partnership must interpret the requirements described above, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. The MD&A also includes information regarding the estimated impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from management's present assessment of this information because future events and circumstances may not occur as expected.

The financial information presented elsewhere in this annual report is consistent with that in the financial statements.

To meet its responsibility for reliable and accurate financial statements, management has established systems of internal control which are designed to provide reasonable assurance that financial information is relevant, reliable and accurate, and that assets are safeguarded and transactions are executed in accordance with management's authorization. These systems are monitored by management and by internal auditors. In addition, the internal auditors perform appropriate tests and related audit procedures.

The financial statements have been examined by Ernst & Young LLP, independent chartered accountants. The external auditors' responsibility is to express a professional opinion on the fairness of management's financial statements. The auditors' report outlines the scope of their examination and sets forth their opinion.

The Audit Committee of the Board of Directors is comprised of independent directors. The Audit Committee meets regularly with management, the internal auditors and the external auditors to satisfy itself that each is properly discharging its responsibilities, and the review of the financial statements and MD&A. The Audit Committee reports its findings to the Board of Directors for consideration when approving the financial statements for issuance to the unitholders. The Audit Committee also recommends, for review by the Board of Directors and approval of unitholders, the appointment of the external auditors. The internal and external auditors have full and free access to the Audit Committee.

Ian A. Bourne
President

Garth A. Wong
Vice-President and Comptroller
March 4, 2005

TRANSALTA POWER, L.P.
AUDITORS' REPORT

To the Unitholders of TransAlta Power, L.P.

We have audited the balance sheets of TransAlta Power, L.P. (TransAlta Power) as at December 31, 2004 and 2003 and the statements of earnings and deficit, partners' equity and cash flows for the years then ended December 31, 2004. These financial statements are the responsibility of TransAlta Power's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of TransAlta Power as at December 31, 2004 and 2003 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Calgary, Canada
February 25, 2005

TRANSALTA POWER, L.P.
FINANCIAL STATEMENTS

Balance Sheets

As at Dec. 31 *(in thousands)*	2004	2003
ASSETS		
Current assets		
Cash	$ 58	$ 182
Accounts receivable	285	3,030
Distributions receivable *(Note 8)*	9,880	9,179
	10,223	12,391
Investment in TransAlta Cogeneration, L.P. *(Notes 2 and 3)*	588,668	561,076
	$ 598,891	$ 573,467
LIABILITIES AND PARTNERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 15	$ 3,050
Advances from related parties *(Note 5)*	28,079	5
Distributions payable *(Note 8)*	9,512	9,090
	37,606	12,145
Partners' equity		
Partnership units *(Notes 4, 7 and 9)*	655,779	633,494
Contributed surplus	381	381
Deficit	(94,875)	(72,553)
	561,285	561,322
	$ 598,891	$ 573,467

See accompanying notes.

On behalf of the Board:

T. Iain Ronald
Chairman

Ian A. Bourne
Director

Statement of Partners' Equity

(in thousands except number of units outstanding)	Number of units outstanding	General partner	Limited partners	Total
Balance, Dec. 31, 2002	33,987,700	$ (5)	$ 261,449	$ 261,444
Partnership units issued *(Note 4)*	39,821,516	–	370,340	370,340
Redemption *(Note 4)*	(4,321,516)	–	(40,190)	(40,190)
Issue costs *(Note 4)*		–	(10,607)	(10,607)
Net income		2	24,895	24,897
Distributions declared		(4)	(44,558)	(44,562)
Balance, Dec. 31, 2003	69,487,700	(7)	561,329	561,322
Partnership units issued *(Note 4)*	2,499,983	–	22,285	22,285
Net income		3	33,605	33,608
Distributions declared		(6)	(55,924)	(55,930)
Balance, Dec. 31, 2004	**71,987,683**	**$ (10)**	**$ 561,295**	**$ 561,285**

See accompanying notes.

Statements of Earnings and Deficit

Year ended Dec. 31 *(in thousands except per unit amounts)*	2004	2003
Revenues		
Equity income from TransAlta Cogeneration, L.P.	$ 34,720	$ 25,777
Expenses		
Management and administration *(Notes 4 and 8)*	1,011	1,553
Net interest (income) expense	101	(673)
	1,112	880
Net income	$ 33,608	$ 24,897
Net income per unit	$ 0.48	$ 0.51
Weighted average number of units outstanding	70,648	48,869
Deficit, beginning of period	(72,553)	(52,888)
Net Income	33,608	24,897
Distributions declared	(55,930)	(44,562)
Deficit, end of period	$ (94,875)	$ (72,553)

See accompanying notes.

Statements of Cash Flows

Year ended Dec. 31 *(in thousands except per unit amounts)*	2004	2003
Operating activities		
Net income	$ 33,608	$ 24,897
Equity income from TransAlta Cogeneration, L.P.	(34,720)	(25,777)
Change in non-cash operating working capital balances	(261)	(14)
Cash used in operating activities	(1,373)	(894)
Investing activities		
Investment in TransAlta Cogeneration, L.P. *(Notes 3 and 5)*	(30,000)	(152,425)
Distributions received from TransAlta Cogeneration, L.P.	36,427	36,465
Cash provided by (used in) investing activities	6,427	(115,960)
Financing activities		
Advance from related party	28,045	–
Net proceeds from issuance of partnership units *(Note 4)*	56,657	191,640
Redemption of partnership units *(Note 4)*	(56,412)	(37,172)
Distributions paid to unitholders	(33,468)	(37,596)
Cash provided by (used in) financing activities	(5,178)	116,872
Increase (decrease) in cash	(124)	18
Cash, beginning of year	182	164
Cash, end of year	$ 58	$ 182
Cash distributions paid per unit	$ 0.79	$ 0.76

See accompanying notes.

NOTES TO TRANSALTA POWER, L.P. FINANCIAL STATEMENTS

For the years ended Dec. 31, 2004 and 2003
(dollar amounts in millions except per unit amounts)

1. DESCRIPTION OF BUSINESS

TransAlta Power, L.P. (TransAlta Power) is a limited partnership formed on Dec. 16, 1997 under the laws of the Province of Ontario pursuant to the TransAlta Power Partnership Agreement. On April 2, 1998, TransAlta Power acquired a 49.99 per cent interest in TransAlta Cogeneration, L.P. (TA Cogen). TransAlta Energy Corporation (TEC) is retained by TransAlta Power to provide certain management, administrative and other services. The remaining 50.01 per cent of TA Cogen is owned by TransAlta Corporation (TAC) through two wholly-owned subsidiaries: TEC (50.0 per cent) and TransAlta Cogeneration Ltd. (0.01 per cent).

2. SIGNIFICANT ACCOUNTING POLICIES

A. Measurement Uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

B. Investment in TA Cogen

The investment in TA Cogen is accounted for using the equity method, whereby TransAlta Power's share of TA Cogen's earnings is included in TransAlta Power's earnings and increases its investment in TA Cogen. Distributions by TA Cogen decrease TransAlta Power's investment in TA Cogen.

C. Revenue Recognition

Revenue consists of equity income from TA Cogen. TransAlta Power recognizes its 49.99 per cent share as income is earned by TA Cogen. TA Cogen recognizes revenue based on its stated policy.

D. Income Taxes

Income taxes are the responsibility of the individual partners and accordingly are not reflected in these financial statements.

E. Financial Instruments

The carrying amounts of TransAlta Power's financial assets and financial liabilities approximate their fair values.

3. INVESTMENT IN TA COGEN

TransAlta Power acquired a 49.99 per cent interest in TA Cogen on April 1, 1998. The investment is accounted for using the equity method. Book values at the time of the initial acquisition approximated fair values.

On Dec. 1, 2004 TA Cogen acquired a 50.0 per cent interest in the Meridian plant for $109.5 million, which included a power plant at a fair value of $110.3 million, approximately $0.4 million of working capital and the assumption of an asset retirement obligation of $1.2 million. The acquisition was funded through the issuance of partnership units to TEC for $30.0 million and to TransAlta Power for $30.0 million.

On July 31, 2003, TA Cogen acquired a 50.0 per cent interest in the Sheerness plant for $629.8 million, which included approximately $4.2 million of working capital, the assumption of an asset retirement obligation of $3.7 million and the assumption of a fair value liability relating to a power purchase arrangement of $76.0 million. The acquisition was funded through the issuance of partnership units to TEC for $315.0 million and to TransAlta Power for $315.0 million.

TA Cogen's interests in the Meridian and Sheerness plants are accounted for as joint ventures and accordingly reflect only TA Cogen's proportionate interest in the related assets, liabilities, revenues and expenses.

These additional investments maintained TransAlta Power's 49.99 per cent interest in TA Cogen.

4. PARTNERSHIP UNIT ISSUANCE

In connection with TransAlta Power's indirect acquisition of an approximate 25 per cent interest in the Sheerness plant in July 2003, TransAlta Power issued 17.75 million subscription receipts to the public for gross cash proceeds of $165.1 million and issue costs of $10.6 million. In addition, TransAlta Power issued 17.75 million private subscription receipts to TEC at fair value, reflecting the market value of TransAlta Power units, for gross proceeds of $165.1 million at $9.30 per unit in the form of a note receivable.

On July 31, 2003, each TransAlta Power public subscription receipt was exchanged for one unit and one warrant and each private subscription receipt was exchanged for one unit, without payment of additional consideration. Each warrant entitled the holder to acquire one partnership unit at a price of $9.30 per unit during a period of one year ending on Aug. 3, 2004. Pursuant to the "Delivery Agreement" between TransAlta Power and TEC, as the warrants were exercised, TEC sold TransAlta Power units back to TransAlta Power for $9.30 per unit.

At Dec. 31, 2004, TEC's ownership in TransAlta Power was nil (2003 – 19.3 per cent), after the exercise of 10.4 million warrants (2003 – 4.3 million) and a block sale of 7.1 million units on Dec. 3, 2004. The warrants expired as of Aug. 3, 2004.

5. CREDIT FACILITIES

TransAlta Power Credit Facilities

On Sept. 30, 2003, a $10.0 million credit facility was established between TA Cogen and TransAlta Power. TransAlta Power can lend funds to TA Cogen at the equivalent term cost of funds plus 1.25 per cent, with mandatory payment on demand from TransAlta Power. No amount was drawn on this facility at Dec. 31, 2004 (2003 – $nil). The effective interest rate in 2004 was 3.99 per cent (2003 – 4.74 per cent). No interest income was earned in 2003 or 2004.

On Sept. 30, 2003, a $10.0 million credit facility was established between TA Cogen and TransAlta Power whereby TA Cogen can lend funds to TransAlta Power at the equivalent term cost of funds plus 1.30 per cent with mandatory payment on demand from TA Cogen. The maximum amount of borrowing permitted was increased to $30.0 million on Nov. 29, 2004. At Dec. 31, 2004, $28.0 million was drawn on this facility (2003 – $nil). The effective interest rate in 2004 was 3.99 per cent (2003 – 4.74 per cent). Interest expense incurred was $0.1 million in 2004 (2003 – $nil).

TEC Credit Facility

On July 1, 2003, a $10.0 million revolving credit facility was established between TransAlta Power and TEC whereby TEC can lend funds to TransAlta Power at the equivalent term cost of funds plus 1.50 per cent, with mandatory payment on demand from TEC. No amount was drawn on this facility at Dec. 31, 2004 (2003 – $nil). The effective interest rate in 2004 was 4.24 per cent (2003 – 4.89 per cent). No interest expenses were incurred in 2004 (2003 – $0.03 million).

6. PREMIUM DISTRIBUTION, DISTRIBUTION REINVESTMENT AND OPTIONAL UNIT PURCHASE PLAN (DRIP)

On Dec. 15, 2003, TransAlta Power announced its DRIP to be effective beginning with the monthly cash distribution payable on Jan. 31, 2004. The DRIP allows eligible unitholders to direct that their monthly cash distributions be reinvested in additional units at 95 per cent of the average market price. The DRIP also provides an alternative where eligible unitholders may elect, under the premium distribution component, to have these additional units delivered in exchange for a premium distribution equal to 102 per cent of the cash distribution that such unitholders would have otherwise been entitled to receive on the distribution date, subject to proration in certain circumstances. Finally, the DRIP allows those unitholders who participate in either the regular distribution reinvestment or premium distribution component to purchase additional units from treasury for cash at a purchase price equal to 95 per cent of the average market price subject to an overall limit of two per cent of the units outstanding at the beginning of the year.

7. NORMAL COURSE ISSUER BID

On April 10, 2002, TransAlta Power implemented a Normal Course Issuer Bid Program (NCIB) under which a maximum of 350,000 partnership units could be repurchased up to April 11, 2003. No units were repurchased under the program. The NCIB expired on April 11, 2003 and was not renewed.

8. RELATED PARTY TRANSACTIONS

During the years ended Dec. 31 2004 and 2003, TransAlta Power engaged in the following related party transactions, which were recorded at their exchange amounts and settled under standard commercial terms.

Partnership Unit Issuance to TEC

In July 2003 and December 2004, in connection with TransAlta Power's indirect acquisition of an approximate 25 per cent interest in the Sheerness and Meridian plants, TransAlta Power engaged in related party transactions with TEC and TA Cogen as discussed in *Notes 3* and *4*.

Management Services

TEC provides management services to TransAlta Power under the terms and conditions set out in a management agreement. The agreement was amended in connection with the acquisition of the Sheerness plant in 2003.

TEC provides TA Cogen with certain management and administrative services with respect to the Sheerness plant. In connection with the acquisition, TEC continues to provide such services; however, it is not entitled to receive any fees for providing such services. TEC continues to be reimbursed by TA Cogen for any expenses and third party costs incurred in providing such services.

As a result of the purchase of the Sheerness plant, certain agreements were amended or terminated in 2003 to be in alignment with the growth and business strategies of TransAlta Power. TransAlta Power does not pay management fees to TEC for the management services provided by TEC; TransAlta Power paid a one-time compensation fee of $1.0 million to TEC, which was expensed in management and administrative expenses in 2003; TransAlta Power reimbursed TEC for expenses and third party costs of $0.4 million for the year ended Dec. 31, 2004 (2003 – $0.2 million) which were expensed in management and administrative expenses; and TAC's buy-back provision which obligated TAC to purchase all of TransAlta Power's interest in TA Cogen on or before Dec. 31, 2018 at fair market value was terminated, thereby removing the risk to unitholders of having to liquidate their investment in TransAlta Power earlier than they otherwise might choose.

Credit Facilities

In 2003, credit facilities were established between TransAlta Power and TEC and TransAlta Power and TA Cogen (see *Note 5* for further discussion).

Distributions

TA Cogen distributes cash to TransAlta Power in amounts proportionate to its ownership interest in TA Cogen. TransAlta Power, in turn, pays cash distributions to unitholders, including TEC until Dec. 3, 2004. At Dec. 31, 2004, distributions receivable from TA Cogen were $9.9 million (2003 – $9.2 million). Distributions payable to TEC were $nil (2003 – $1.9 million). The amounts are non-interest bearing.

9. PARTNERS' EQUITY

TransAlta Power is authorized to issue an unlimited number of units. Each unit represents an equal undivided limited partnership interest, entitles the holder to participate equally in distributions, and is not subject to future calls or assessments.

10. INCOME TAXES

The reported amount of TransAlta Power's investment in TA Cogen as at Dec. 31, 2004 exceeds the tax base by $83.5 million (2003 – $59.9 million). The reported amount of TransAlta Power's issuance costs as at Dec. 31, 2004 exceeds the tax base by $23.0 million (2003 – $20.4 million).

TRANSALTA COGENERATION, L.P.
MANAGEMENT'S RESPONSIBILITY

TransAlta Cogeneration, L.P.'s management is responsible for the presentation and preparation of the annual consolidated financial statements, management's discussion and analysis (MD&A) and all other information in this annual report.

The accompanying consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

The MD&A has been prepared in accordance with the requirements of securities regulators including National Instrument 44-101 of the Canadian Securities Administrators and their related published requirements.

The consolidated financial statements and information in the MD&A necessarily include amounts based on informed judgments and estimates of the expected effects of current events and transactions with appropriate consideration for materiality. In addition, in preparing financial information, the partnership must interpret the requirements described above, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. The MD&A also includes information regarding the estimated impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from management's present assessment of this information because future events and circumstances may not occur as expected.

The financial information presented elsewhere in this annual report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable and accurate financial statements, management has established systems of internal control which are designed to provide reasonable assurance that financial information is relevant, reliable and accurate, and that assets are safeguarded and transactions are executed in accordance with management's authorization. These systems are monitored by management and by internal auditors. In addition, the internal auditors perform appropriate tests and related audit procedures.

The consolidated financial statements have been examined by Ernst & Young LLP, independent chartered accountants. The external auditors' responsibility is to express a professional opinion on the fairness of management's consolidated financial statements. The auditors' report outlines the scope of their examination and sets forth their opinion.

The Audit Committee of the Board of Directors is comprised of independent directors. The Audit Committee meets regularly with management, the internal auditors and the external auditors to satisfy itself that each is properly discharging its responsibilities, and to review the consolidated financial statements and MD&A. The Audit Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the unitholders. The Audit Committee also recommends, for review by the Board of Directors and approval of unitholders, the appointment of the external auditors. The internal and external auditors have full and free access to the Audit Committee.

IBourne

Ian A. Bourne
President

Garth A Wong

Garth A. Wong
Vice-President and Comptroller
March 4, 2005

TRANSALTA COGENERATION, L.P.
AUDITORS' REPORT

To the Unitholders of TransAlta Cogeneration, L.P.

We have audited the balance sheets of TransAlta Cogeneration, L.P. (TA Cogen) as at December 31, 2004 and 2003 and the statements of earnings and deficit, partners' equity and cash flows for the years then ended December 31, 2004. These financial statements are the responsibility of TA Cogen's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of TA Cogen as at December 31, 2004 and 2003 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Calgary, Alberta
February 25, 2005

TRANSALTA COGENERATION, L.P.
FINANCIAL STATEMENTS

Consolidated Balance Sheets

As at Dec. 31 *(in thousands)*	2004	2003
ASSETS		
Current assets		
Cash	**$ 1,276**	$ 709
Accounts receivable *(Notes 3 and 14)*	**33,133**	29,144
Advances to related parties, net of repayments *(Notes 8 and 11)*	**28,045**	11,847
Prepaid expenses	**388**	811
Inventory *(Note 2)*	**4,447**	3,996
	67,289	46,507
Long-term receivable *(Note 3)*	**828**	996
Power plants, net of accumulated depreciation of $240 *(Notes 4, 5 and 7)*	**1,316,784**	1,261,966
	$ 1,384,901	$ 1,309,469
LIABILITIES AND PARTNERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**$ 22,584**	$ 22,553
Distributions payable *(Note 11)*	**19,764**	18,361
Advances from related parties *(Note 11)*	**24,968**	–
Current portion of long-term debt *(Note 7)*	**3,926**	3,651
	71,242	44,565
Due to related party *(Notes 10 and 11)*	**5,525**	6,188
Long-term debt *(Note 7)*	**51,095**	55,022
Power purchase arrangement, net of accumulated amortization of $6,182 *(Notes 2 and 4)*	**70,560**	74,182
Asset retirement liability *(Note 6)*	**9,115**	7,331
Partners' equity *(Note 9)*		
Partnership units *(Note 4)*	**1,323,056**	1,263,056
Deficit	**(145,692)**	(140,875)
	1,177,364	1,122,181
	$ 1,384,901	$ 1,309,469

Commitments *(Note 17)*

See accompanying notes.

On behalf of the Board:

T. Iain Ronald
Chairman

Ian A. Bourne
Director

Consolidated Statement of Partners' Equity

(in thousands except number of units outstanding)	Number of units outstanding	General partner	Limited partners	Total
Balance, Dec. 31, 2002	63,910,341	$ (9)	$ 522,521	$ 522,512
Partnership units issued *(Note 4)*	78,201,969	–	635,000	635,000
Net income		5	51,559	51,564
Distributions declared		(9)	(86,886)	(86,895)
Balance, Dec. 31, 2003	142,112,310	(13)	1,122,194	1,122,181
Partnership units issued *(Note 4)*	7,614,214	6	59,994	60,000
Net income		7	69,446	69,453
Distributions declared		(7)	(74,263)	(74,270)
Balance, Dec. 31, 2004	**149,726,524**	**$ (7)**	**$ 1,177,371**	**$ 1,177,364**

See accompanying notes.

Consolidated Statements of Earnings and Deficit

Year ended Dec. 31 *(in thousands)*	2004	2003
Revenues		
Electrical	**$ 128,417**	$ 108,566
Capacity	**141,646**	89,419
Thermal and other	**14,396**	11,221
	284,459	209,206
Operating expenses		
Cost of fuel *(Notes 11 and 14)*	**113,822**	83,909
Depreciation *(Note 16)*	**61,344**	38,256
Operating and maintenance *(Notes 4 and 11)*	**36,638**	30,602
	211,804	152,767
Operating income	**72,655**	56,439
Net interest expense *(Notes 7, 8 and 10)*	**3,202**	4,875
Net income	**$ 69,453**	$ 51,564
Deficit, beginning of period	**$ (140,875)**	$ (105,544)
Net Income	**69,453**	51,564
Distributions declared	**(74,270)**	(86,895)
Deficit, end of period	**$ (145,692)**	$ (140,875)

See accompanying notes.

Consolidated Statements of Cash Flows

Year ended Dec. 31 *(in thousands)*	2004	2003
Operating activities		
Net income	**$ 69,453**	$ 51,564
Depreciation *(Note 16)*	**63,274**	39,058
Non-cash interest expense	**337**	372
	133,064	90,994
Change in non-cash operating working capital balances	**(3,991)**	(11,672)
Cash provided by operating activities	**129,073**	79,322
Investing activities		
Additions to power plants	**(10,760)**	(7,579)
Acquisitions *(Note 4)*	**(79,470)**	(149,773)
Cash used in investing activities	**(90,230)**	(157,352)
Financing activities		
Distributions paid to unitholders	**(72,866)**	(72,944)
Proceeds from issuance of partnership units *(Note 4)*	**30,000**	154,925
Advances from (to) related parties	**8,769**	–
Levelization advance (repayment) from (to) TransAlta Energy Corporation	**(526)**	(80)
Repayment of long-term debt principal	**(3,653)**	(3,394)
Cash provided by (used in) financing activities	**(38,276)**	78,507
Increase (decrease) in cash	**567**	477
Cash, beginning of year	**709**	232
Cash, end of year	**$ 1,276**	$ 709

See accompanying notes.

NOTES TO TRANSALTA COGENERATION, L.P. CONSOLIDATED FINANCIAL STATEMENTS

For the years ended Dec. 31, 2004 and 2003

(dollar amounts in thousands except as otherwise noted)

1. DESCRIPTION OF BUSINESS

TransAlta Cogeneration, L.P. (TA Cogen) is a limited partnership formed on Dec. 16, 1997 under the laws of the Province of Ontario pursuant to the TransAlta Cogeneration, L.P. Partnership Agreement. On April 1, 1998, TA Cogen acquired the Mississauga, Ottawa and Windsor-Essex plant assets of TransAlta Energy Corporation (TEC). On Sept. 30, 2001, TA Cogen acquired a 60 per cent interest in the Fort Saskatchewan plant assets from a wholly-owned subsidiary of TEC. On July 31, 2003, TA Cogen acquired a 50 per cent interest in the Sheerness plant assets from TEC. On Dec. 1, 2004, TA Cogen acquired a 50 per cent interest in the Meridian plant assets from TEC. TransAlta Corporation (TAC) owns 50.01 per cent of TA Cogen through two wholly-owned subsidiaries: TEC and TransAlta Cogeneration Ltd. TransAlta Power, L.P. (TransAlta Power) owns the remaining 49.99 per cent. TEC is retained by TA Cogen to operate and maintain the plants and to provide certain management, administrative and other services, with the exception of the Sheerness plant which is operated and maintained by Canadian Utilities Ltd., a subsidiary of ATCO Ltd.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The consolidated financial statements include the accounts of TA Cogen and its proportionate share of the Fort Saskatchewan, Sheerness and Meridian joint ventures from the date of acquisition.

B. Measurement Uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

C. Inventory

The partnership's inventory balance represents coal which is valued at the lower of cost and market value, defined as net replacement value.

D. Power Plants

The Ontario, Fort Saskatchewan and Meridian plants are carried at cost and are depreciated on a unit-of-production basis over the lives of the plants, which are 2028, 2019 and 2024 respectively. The Sheerness plant is carried at cost and is depreciated on a straight-line basis over the life of the plant, which is 2026. Certain expenditures relating to components incurred during planned maintenance are capitalized and amortized straight-line over the estimated benefit period of such expenditures, ranging from three to six years. A component is a tangible portion of an asset that can be separately identified as an asset and depreciated over its own expected useful life, and is expected to provide a benefit greater than one year.

E. Power Purchase Arrangement (PPA)

In connection with the acquisition of the Sheerness plant in July 2003 (see *Note 4* for further discussion), TA Cogen assumed a fair value liability of $76.0 million relating to the Sheerness PPA. The liability is being amortized straight-line over the life of the plant to 2026.

F. Revenue Recognition

The majority of TA Cogen's revenues are derived from the sale of electricity to Ontario Electricity Financial Corporation (OEFC), Dow Chemical Canada Inc. (Dow Chemical), the Balancing Pool of Alberta (the Balancing Pool) and Saskatchewan Power Corporation (SaskPower). Revenues under long-term power sales contracts are comprised of capacity payments for plant availability and energy payments for generation of electricity. Capacity revenues are recognized when contractually earned, as specified by contractual terms. Electrical energy revenue is recognized upon delivery. Availability incentives and excess energy revenues are earned primarily at the Sheerness plant when availability exceeds contractual availability targets, and are recognized upon delivery to the customer. Curtailment revenue is recognized when physical curtailment of plant output occurs pursuant to the fixed-for-floating gas swap transaction with TEC *(Note 14B* and *Note 17)*. Thermal revenue for steam sales is recognized upon delivery to the customer.

G. Income Taxes

Income taxes are the responsibility of the individual partners and accordingly are not reflected in these consolidated financial statements.

H. Levelization Payments

Pursuant to an agreement dated April 2, 1998, TA Cogen receives levelization payments in respect of the Windsor-Essex plant from TEC. These amounts are recorded as a future repayment obligation to TEC. The levelization agreement was entered into on the construction of the plant and has a life equal to the PPA which extends to 2016.

I. Financial Instruments

Fixed-price contracts and swaps are used to hedge TA Cogen's exposure to fluctuations in gas commodity and transportation costs. Gains and losses are deferred and recognized in earnings in the same period and financial statement caption as the hedged exposure (settlement accounting). The derivatives are not recorded on the balance sheet. Contracts for the physical delivery or supply of electricity and gas at fixed pricing terms are not considered to be derivatives and are accounted for on a settlement basis.

The estimated fair value of long-term debt is determined with reference to market prices for similar issues *(Note 14A)*. The carrying amounts of other balance sheet financial assets and financial liabilities approximate their fair values.

3. LONG-TERM RECEIVABLE

The long-term receivable is due from Dow Chemical for maintenance capital expenditures, and is non-interest bearing. During 2004, TA Cogen received $0.9 million from Dow Chemical with respect to maintenance capital expenditures (2003 – $nil).

4. ACQUISITION AND INVESTMENT

On Dec. 1, 2004, TA Cogen acquired TEC's 50 per cent interest in the 220-megawatt (MW) gas-fired Meridian Cogeneration Facility. Consideration for the acquisition was in the form of $49.5 million of cash on hand, and issuance of $30.0 million of units to each of TEC and TransAlta Power. TransAlta Power financed the purchase of units of TA Cogen by borrowing $30.0 million under an existing credit facility with TA Cogen.

Fair value was determined by valuing the estimated future cash flows from TEC's 50 per cent share of Meridian. Estimated future cash flows were based on forecasts of long-term revenues, expenses, capital, decomissioning and working capital cash flows, much of which was validated by an independent engineering assessment. Valuation methods and metrics were applied that were representative of similar transactions.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

Net assets acquired at assigned values:	
Power plants, including capital spares	$ 110,263
Working capital	398
Asset retirement obligation	(1,191)
	$ 109,470
Consideration:	
TA Cogen cash payment to TEC	$ 49,470
Issuance of note payable to TEC	30,000
TA Cogen units issued to TEC	30,000
	$ 109,470

On July 31, 2003, TA Cogen acquired, at fair value, TEC's 50 per cent interest in the two-unit, 756-MW coal-fired Sheerness plant. Consideration for the acquisition was in the form of partnership units issued to TEC for $315.0 million and to TransAlta Power for $315.0 million. Consideration for the units issued to TransAlta Power was comprised of cash of $149.8 million plus cancellation of a note receivable from TEC of $165.1 million.

Fair value was determined by valuing the estimated future cash flows from TEC's 50 per cent share of the Sheerness Plant. Estimated future cash flows were based on detailed forecasts of long-term revenues, expenses, capital, decommissioning and working capital cash flows, much of which was validated by an independent engineering assessment. Valuation methods and metrics were applied that were representative of similar transactions.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

Net assets acquired at assigned values:	
Power plants	$ 705,261
Working capital	4,248
Asset retirement liability	(3,661)
Power purchase arrangement [1]	(76,000)
	$ 629,848
Consideration:	
TA Cogen cash payment to TEC	$ 149,773
Cancellation of note receivable from TEC	165,075
TA Cogen units issued to TEC	315,000
	$ 629,848

[1] *Represents the obligation to deliver power at less than the prevailing market price for the period of the PPA at the time of acquisition.*

The acquisitions have been accounted for using the purchase method of accounting. TA Cogen's interests in the Sheerness and Meridian plants are accounted for as joint ventures and therefore the financial statements reflect only TA Cogen's proportionate interest in the related assets, liabilities, revenues and expenses.

5. POWER PLANTS

	2004	2003
Cost	**$ 1,556,542**	$ 1,435,896
Accumulated depreciation	**(239,758)**	(173,930)
Net book value	**$ 1,316,784**	$ 1,261,966

6. ASSET RETIREMENT OBLIGATION

A reconciliation between the opening and closing asset retirement obligation balances is provided below:

Balance, Jan. 1, 2003	$	3,290
Sheerness asset retirement obligation		3,661
Accretion expense		380
Balance, Dec. 31, 2003	$	7,331
Meridian asset retirement obligation		1,191
Accretion expense		593
Balance, Dec. 31, 2004	**$**	**9,115**

TA Cogen estimates the undiscounted amount of cash flow required to settle the asset retirement obligation is approximately $39.4 million, which will be incurred between 2019 and 2028. A discount rate of eight per cent was used to calculate the carrying value of the asset retirement obligation.

7. LONG-TERM DEBT

Long-term debt is comprised of a note payable, which bears interest at a fixed rate of 7.41 per cent and matures on Nov. 30, 2014. Interest expense incurred was $4.2 million (2003 – $4.4 million). First fixed and floating charges, a mortgage on the Windsor-Essex power plant assets, a guarantee by TAC and a letter of credit aggregating approximately $60.0 million issued by TAC, have been provided as security.

Principal payments over each of the next five years and thereafter are as follows:

2005	$	3,926
2006		4,223
2007		4,542
2008		4,884
2009		5,253
Thereafter		32,194
	$	55,022

8. CREDIT FACILITIES

TA Cogen Facilities

On Sept. 30, 2003, a $10.0 million credit facility was established between TransAlta Power and TA Cogen whereby TransAlta Power can lend funds to TA Cogen at the equivalent term cost of funds plus 1.25 per cent with mandatory repayment on demand from TransAlta Power. No amount was drawn on this facility at Dec. 31, 2004. The effective interest rate in 2004 was 3.99 per cent (2003 – 4.74 per cent). No interest income was earned in 2004 or 2003.

On Sept. 30, 2003, a $10.0 million revolving credit facility was established between TA Cogen and TransAlta Power whereby TA Cogen can lend funds to TransAlta Power at the equivalent term cost of funds plus 1.30 per cent, with mandatory payment on demand from TA Cogen. The maximum amount of borrowing was increased to $30.0 million on Nov. 29, 2004. The balance outstanding at Dec. 31, 2004 was $28.0 million (2003 – $nil). The effective interest rate on this facility in 2004 was 3.99 per cent (2003 – 4.74 per cent). The amount of interest income earned in 2004 was $0.1 million (2003 – $nil).

In addition, TA Cogen increased the maximum amount of borrowing permitted under its existing credit facility with TEC from $20.0 million to $50.0 million on July 1, 2003. This facility bears interest at the equivalent term cost of funds plus 1.25 per cent, with mandatory payment on demand from TEC. The effective interest rate on this facility in 2004 was 3.94 per cent (2003 – 4.57 per cent). No amount was drawn at Dec. 31, 2004 (2003 – $nil). Interest expense incurred was $0.4 million (2003 – $0.1 million).

TEC Facilities

On Sept. 30, 2003, a $50.0 million credit facility was established between TA Cogen and TEC whereby TA Cogen can lend funds to TEC at the equivalent term cost of funds plus 1.25 per cent, with mandatory payment on demand from TA Cogen. The balance outstanding as at Dec. 31, 2004 was $nil (2003 – $16.9 million), with interest related income earned of $1.5 million, (2003 – $0.1 million) which was net against interest expense. The effective interest rate on this facility in 2004 was 3.92 per cent (2003 – 4.74 per cent).

9. PARTNERS' EQUITY

TA Cogen is authorized to issue an unlimited number of units. Each unit represents an equal undivided limited partnership interest, entitles the holder to participate equally in distributions and is not subject to future calls or assessments.

10. LEVELIZATION REPAYMENT OBLIGATION

As at Dec. 31, 2004, the repayment obligation amounts to $6.5 million (2003 – $6.7 million), which includes interest in the amount of $1.9 million (2003 – $1.6 million) and a current portion of $1.0 million (2003 – $0.5 million). Interest is calculated based on the Royal Bank of Canada prime rate plus one per cent. The effective interest rate in 2004 was 5.03 per cent (2003 – 5.69 per cent).

Estimated repayments, including imputed interest of $1.4 million, in each of the next five years and thereafter are as follows:

2005	$ 972
2006	1,801
2007	2,672
2008	2,096
Total	$ 7,541

11. RELATED PARTY TRANSACTIONS

During the year, TA Cogen engaged in the following related party transactions, which were recorded at their exchange amounts and settled under standard commercial terms.

Acquisition of Power Plants

On Dec. 1, 2004, in connection with TA Cogen's acquisition of TEC's 50 per cent interest in the Meridian plant, TA Cogen engaged in related party transactions with TEC and TransAlta Power, as discussed in *Note 4*.

On July 31, 2003, in connection with TA Cogen's acquisition of TEC's 50 per cent interest in the Sheerness plant, TA Cogen engaged in related party transactions with TEC and TransAlta Power, as discussed in *Note 4*.

Credit Facilities

In 2003, an additional credit facility was established between TA Cogen and TEC. A credit facility was also established between TA Cogen and TransAlta Power (see *Note 7* for further discussion).

Fixed-for-Floating Gas Swap and Transportation Swap

In November 2000, TA Cogen entered into a fixed-for-floating gas swap transaction with TEC for a 61-month period in order to fix the price of gas for both the Mississauga and Ottawa plants *(Note 14B* and *Note 17)*. For the period Nov. 1, 2002 to Nov. 1, 2007, TA Cogen entered into a transportation swap transaction with a wholly-owned subsidiary of TEC to fix the gas delivery price for the Mississauga and Ottawa plants (see *Note 14B* and *Note 17* for further discussion).

Ottawa Gas Supply Agreement

In order to secure a long-term natural gas supply for the Ottawa plant, TA Cogen has committed to purchase firm volumes of gas from TEC until Nov. 1, 2007 under a gas supply agreement. In 2004, $12.4 million was charged to cost of fuel expense (2003 – $11.5 million) with respect to purchases under this agreement.

Levelization Repayment Obligation

TA Cogen receives levelization payments in respect of the Windsor-Essex plant from TEC. These amounts are recorded as a future repayment obligation to TEC (see *Note 2H* and *Note 10* for further discussion). The current portion of the levelization obligation was $1.0 million at Dec. 31, 2004 (2003 – $0.5 million). $5.5 million (2003 – $6.2 million) of the long-term component was included in Due to TransAlta Energy Corporation at Dec. 31, 2004.

Management Services

TEC operates the power plant assets, with the exception of Sheerness, which is operated by Canadian Utilities Ltd., and provides management services to TA Cogen under an operating and maintenance agreement. The agreement was amended in connection with the acquisition of the Sheerness plant in 2003. The amounts charged by TEC as reimbursement of expenses and third party costs incurred on behalf of TA Cogen were $12.5 million for the year ended Dec. 31, 2004 (2003 – $8.5 million) and were recorded in operating and maintenance expenses. $2.9 million remains payable at Dec. 31, 2004 (2003 – $4.6 million).

As a result of the purchase of the Sheerness plant, certain agreements were amended or terminated to be in alignment with the growth and business strategies of TA Cogen. TransAlta Power does not pay management fees to TEC for the management services provided by TEC; TA Cogen paid a one-time compensation fee of $5.0 million to TEC, which TA Cogen expensed in operating and maintenance expenses in the third quarter of 2003; and TA Cogen no longer has a right to require TEC to purchase the Fort Saskatchewan plant on July 31, 2017.

The net amounts due to TEC and TransAlta Power are comprised of the following:

	2004	2003
Credit facility – Due from TransAlta Power	**$ 28,045**	$ –
Credit facility – Due to TEC	**$ (18,041)**	$ 16,899
Reimbursement of expenses and third party costs	**(5,955)**	(4,526)
Current portion – Levelization payment due to TEC	**(972)**	(526)
Due to TEC	**$ (24,968)**	$ (11,847)
Levelization repayment to TEC	**$ (5,525)**	$ (6,188)

Distributions

TA Cogen distributes cash to TransAlta Power and TEC in amounts proportionate to their ownership interests in TA Cogen. At Dec. 31, 2004, distributions payable to TransAlta Power were $9.9 million (2003 – $9.2 million). Distributions payable to TEC were $9.9 million (2003 – $9.2 million).

12. INCOME TAXES

The reported amounts of TA Cogen's assets and liabilities as at Dec. 31, 2004 exceed the tax base by $647.7 million (2003 – $568.8 million).

13. RECLASSIFICATION OF COMPARATIVE FIGURES

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current year consolidated financial statements.

14. FINANCIAL RISK MANAGEMENT

A. Interest Rate Risk Management

TA Cogen has fixed the interest rates on long-term debt through fixed-rate borrowings. The fair value of TA Cogen's long-term debt changes as interest rates change. The fair value of the liability as at Dec. 31, 2004 was $61.8 million (2003 – $63.4 million).

B. Energy Commodities Price Risk Management

Sales prices for electrical and thermal revenues, gas purchase prices and gas transportation costs are generally fixed through long-term contracts. Selling prices for electrical and thermal revenues are fixed under the terms of the contracts and include specific price adjustment clauses. As a result, TA Cogen is less subject to fluctuations in market prices of these commodities. These contract terms range from 2008 to 2019. The cost of gas transportation is subject to rate regulation.

From Nov. 1, 2002 to Nov. 1, 2007, TA Cogen entered into a transportation swap transaction with a wholly-owned subsidiary of TEC. The business purpose of the transportation swap was to provide TA Cogen with a fixed gas delivery price for two of its plants, without being exposed to escalating costs of pipeline transportation over the period of the swap in order to stabilize cash distributions in TA Cogen. The notional gas volume in the transaction was the total delivered fuel for both facilities. These transactions have been recorded at the exchange amount *(Note 17)*.

In November 2000, TA Cogen entered into a fixed-for-floating gas swap transaction with TEC for a 61-month period starting Dec. 1, 2000. The swap transaction provided TA Cogen with fixed-price gas for both the Mississauga and Ottawa plants over the period. The floating prices associated with the Mississauga and Ottawa Cogen plants' long-term fuel supply agreements were transferred to TEC's account. For the year ended Dec. 31, 2004, payments by TEC under the swap transaction totalled $16.3 million (2003 – $10.0 million) and were net against cost of fuel expense. The notional gas volume in the transaction was the total delivered fuel for both facilities. As consideration, TEC was granted the right to incremental revenues associated with curtailed electrical production during off-peak hours and subsequent higher revenue gas sales. TA Cogen was not entitled to these revenues. The amounts earned by TEC in 2004 and 2003 were not material. In the case of curtailment during on-peak hours, TA Cogen will earn the incremental revenues from the curtailment. Curtailment occurs when gas is sold on the spot market in lieu of generating electricity, and occurs during off-peak periods when it is more economical to sell gas than produce electricity *(Note 17)*.

C. Credit Risk

Accounts receivable includes $13.2 million due from OEFC (2003 – $13.8 million), $10.1 million due from the Balancing Pool (2003 – $10.6), $7.2 million due from SaskPower (2003 – $nil) and $2.3 million due from Dow Chemical (2003 – $1.5 million). These receivables represent 40 per cent (2003 – 47 per cent), 30 per cent (2003 – 36 per cent), 22 per cent (2003 – nil) and seven per cent (2003 – five per cent), respectively, of total accounts receivable. Revenue from OEFC represents 35 per cent of total revenue (2003 – 47 per cent). Revenue from the Balancing Pool represents 40 per cent of total revenue (2003 – 36 per cent). Revenue from SaskPower represents two per cent of total revenue (2003 – nil). Revenue from Dow Chemical represents four per cent of total revenue (2003 – five per cent).

15. JOINT VENTURES

Summarized information on the results of operations, financial position and cash flows relating to TA Cogen's pro-rata interests in the jointly controlled Fort Saskatchewan, Sheerness and Meridian plants were as follows:

	2004	2003
Results of Operations		
Revenues	**$ 132,291**	$ 64,631
Operating expenses	**(76,452)**	(31,373)
Proportionate share of net income	**$ 55,839**	$ 33,258
Financial Position		
Current assets	**$ 36,514**	$ 27,633
Long-term assets	**811,416**	754,369
Current liabilities	**(14,920)**	(9,780)
Long-term liabilities	**(75,329)**	(79,029)
Proportionate share of net assets	**$ 757,682**	$ 684,193
Cash Flows		
Operating activities	**$ 18,087**	$ 23,523
Investing activities	**(9,876)**	(3,933)
Financing activities	**(8,211)**	(234)
Increase (decrease) in cash	**$ –**	$ 19,356

16. SUPPLEMENTAL CASH FLOW INFORMATION

Year ended Dec. 31	2004	2003
Depreciation per statements of earnings	**$ 61,344**	$ 38,256
Mining equipment depreciation, included in fuel expense	**1,930**	802
Depreciation per statements of cash flows	**$ 63,274**	$ 39,058

17. COMMITMENTS

Sheerness Mine Take or Pay Coal Commitment

As at Dec. 31, 2004, the future payment obligation, related to the Sheerness mine take or pay coal commitment, amounts to $301.5 million (2003 – $315.2 million).

Estimated payments in each of the next five years and thereafter are as follows:

2005	$ 13,704
2006	13,704
2007	13,704
2008	13,704
2009	13,704
Thereafter	232,971
Total	$ 301,491

Fixed-For-Floating Swap Agreement

The future commitment under the fixed-for-floating swap agreement at Dec. 31, 2004 is $44.1 million (2003 – $85.9 million), which will be incurred in 2005 *(Note 14B)*.

Transportation Swap Agreement

The future commitment under the fixed-for-floating swap agreement at Dec. 31, 2004 is $42.3 million (2003 – $57.2 million).

Estimated payments in each of the remaining years of the agreement are as follows:

2005	$ 14,903
2006	14,944
2007	12,447
Total	$ 42,294

Operating Lease Agreement

The future commitment under the operating lease agreement at Dec. 31, 2004 is $4.9 million (2003 – $nil).

Estimated payments in each of the remaining years of the agreement are as follows:

2005	$ 595
2006	692
2007	709
2008	733
2009	756
Thereafter	1,426
Total	$ 4,911

Five-Year Financial Summary

(thousands of Canadian dollars, except where noted)

Year ended Dec. 31	2004	2003	2002	2001	2000
TRANSALTA COGENERATION, L.P.					
Financial Summary					
Earnings statement					
Revenue	**$ 284,459**	$ 209,206	$ 154,471	$ 144,147	$ 137,454
Operating expenses	**$ 211,804**	$ 152,767	$ 111,903	$ 110,701	$ 112,283
Net earnings	**$ 69,453**	$ 51,564	$ 37,713	$ 28,136	$ 19,579
Balance sheet					
Total assets	**$ 1,384,901**	$1,309,469	$ 619,716	$ 641,238	$ 591,102
Partners' equity	**$ 1,177,364**	$1,122,181	$ 522,512	$ 537,887	$ 591,102
Cash Flow					
Cash flow used in operating activities	**$ 129,073**	$ 79,322	$ 58,118	$ 58,027	$ 50,374
Cash flow from (used in) investing activities	**$ (90,230)**	$ (157,352)	$ (5,897)	$ (35,897)	$ 67,697
Operational					
Total production (GWh)	**5,284**	3,496	2,315	1,878	1,640
Weighted average plant availability	**93%**	96%	97%	98%	96%
TRANSALTA POWER, L.P.					
Per unit information:					
Net earnings	**$ 0.48**	$ 0.51	$ 0.54	$ 0.47	$ 0.32
Distributions declared	**$ 0.79**	$ 0.76	$ 0.74	$ 0.73	$ 0.70
Cash available for distribution	**$ 0.48**	$ 0.77	$ 0.74	$ 0.76	$ 0.70
Market price:					
High	**$ 10.30**	$ 10.11	$ 9.74	$ 9.50	$ 7.10
Low	**$ 8.50**	$ 8.95	$ 8.50	$ 6.75	$ 5.50
Close (TSX at Dec. 31)	**$ 10.20**	$ 9.99	$ 9.36	$ 9.20	$ 6.80
Weighted average number of units outstanding *(in millions)*	**70.6**	48.9	34.0	34.0	30.6

UNITHOLDER INFORMATION

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IMPORTANT DISTRIBUTION DATES

Payment Date	Record Date	Ex-Dividend Date
March 31, 2005	March 10, 2005	March 8, 2005
April 30, 2005	April 10, 2005	April 6, 2005
May 31, 2005	May 10, 2005	May 6, 2005

Cash disbursements are paid at the end of each month to unitholders of record at the close of business on the 10th day of that particular month. When a distribution payment date falls on a weekend or holiday, the payment is made the previous business day. Only cash distributions that have been approved by the Board of Directors are included in this table. Information with respect to distributions approved by the Board of Directors for payment after May 31, 2005 will be provided by press release and will be available on our website.

PREMIUM DISTRIBUTION, DISTRIBUTION REINVESTMENT AND OPTIONAL UNIT PURCHASE (DRIP)
TransAlta Power's DRIP offers several options for unitholders wishing to reinvest their distributions without incurring service charges or brokerage fees.

Option 1: Regular Distribution
A unitholder decides not to participate in the Plan and continues to receive regular distributions as declared.

Option 2: Distribution Reinvestment
A unitholder elects to reinvest distributions to purchase additional units at a five per cent discount to the average market price.

Option 3: Premium Distribution
A unitholder elects to have distributions invested in new units and exchanged for a premium distribution equal to 102 per cent of the cash distribution.

Option 4: Cash Purchase of Additional Units
A unitholder may also purchase additional units for cash once enrolled in the Plan at a five per cent discount to the average market price.

TRANSALTA POWER LTD.
GENERAL PARTNER OF TRANSALTA POWER, L.P.:

DIRECTORS (at Feb. 25, 2005)

Ian A. Bourne

Terence Dalgleish

Randall J.Findlay

Stephen W.C. Mulherin

Thomas M. Rainwater

T. Iain Ronald (Chair)

Robert M. Soeldner

OFFICERS

Ian A. Bourne
President

Marvin J. Waiand
Vice-President and Treasurer

Garth A. Wong
Vice-President and Comptroller

Alison T. Love
Secretary

2004 Changes
In February 2004, Jan Carr resigned as a director and Stephen Mulherin was elected as a director.

In an effort to be environmentally responsible, please notify your financial institution to avoid duplicate mailings of this annual report. Design and production Karo Design Calgary Inc. Cover photography Jason Stang Printed in Canada by Sundog Printing Project management Joan Moss

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